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What a Candle Says

Price Action

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What a Candle Says

The patterns drawn accurately, and what each one is evidence of

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Contents

Every pattern in this paper is drawn rather than described. The named shapes are the shared vocabulary of the technique; the ordering, the figures and the argument are ours.

01

Four numbers and an argument

A candlestick is not a picture of a market. It is a picture of four numbers — the open, the high, the low and the close of one period — arranged so that a reader can take all four in at once. That is the whole of the invention, and it is genuinely a good one: a line chart shows you one number per period and throws the other three away.

One candle, four numbers. The body runs from the open to the close; the wicks reach to the extremes the price touched and did not hold. Left is a period that closed above its open, right one that closed below — hollow and solid, the convention this paper uses throughout.

The body runs between the open and the close. The wicks reach out to the two extremes that price touched and did not hold. Where the close is above the open the body is drawn hollow, and where it is below, solid — this paper uses that convention throughout, because colour does not survive a printed page.

The number	What it is	What it carries
Open	the first trade of the period	where the argument started
High	the highest price touched	how far buyers pushed before failing
Low	the lowest price touched	how far sellers pushed before failing
Close	the last trade of the period	who was holding the ground at the bell

What each of the four prices is, and what it is worth on its own. The last column is the point of the whole technique: three of them are ordinary facts, and the fourth is the one every pattern is really about.

Read the last column of that table and the technique's logic appears. The high and the low tell you how far each side pushed before failing. The close tells you which of them was holding the ground when the period ended. Everything anyone has ever claimed about candle patterns is a claim about that last number in relation to the other three.

> The named patterns in this paper are the shared vocabulary of the technique and belong to nobody. The ordering, the drawings, the arithmetic and the argument are ours.

02

The body and the wicks

Before any pattern, one thing is worth seeing on its own: the range of a period and the body inside it are two different pieces of information, and the second is the one that carries meaning.

The same range, four different stories. Every candle here has an identical high and low; only where the body sits inside them changes. The reading is not about how far price went — it is about where it was willing to stay.

Every candle in that figure has exactly the same high and the same low. The market travelled the same distance in all four. What differs is where price was willing to stay when the period closed — at the top, at the bottom, in the middle, or back near the top after a visit to the low.

This is why a long wick is treated as more interesting than a long body. A body says where the period settled. A wick says a price was reached and then abandoned — that somebody was willing to trade there and then was not, within the same period. The fourth candle is drawn in the accent colour because it is the one every reversal pattern in this paper is ultimately made of.

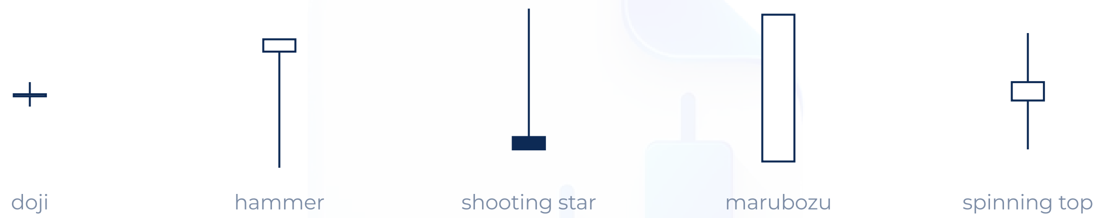
Two cautions before the vocabulary starts. A wick is only long relative to something —

usually the recent average range — so long is a measurement and not an impression. And a wick on a five-minute candle in a quiet hour is not the same event as a wick on a daily candle, however similar the drawing looks.

03

The single shapes

Five single-candle shapes carry names, and it is worth seeing them drawn to the same scale rather than as five separate diagrams that each flatter their own subject.



The single-candle vocabulary, drawn to scale. None of these is a signal on its own; they are nouns, and a paper that stops here has given you words without sentences.

The doji closed where it opened. The hammer reached down and came back. The shooting star reached up and came back. The marubozu closed at its own extreme with no wick at all. The spinning top ranged widely and finished near where it started.

The shape	The usual reading	What the numbers actually say
Doji	indecision, a turning point	the period closed where it opened
Hammer	sellers rejected, a bottom	a low was reached and not held
Shooting star	buyers rejected, a top	a high was reached and not held
Marubozu	conviction, one side in control	the period closed at its extreme
Spinning top	a pause, a loss of momentum	the range was wide and the net move small

What each single candle is usually said to mean, and the narrower thing it actually reports. The right column is what the four numbers support; the middle is what gets added on top.

The middle column of that table is what these shapes are usually said to mean, and the right column is what the four numbers actually support. The difference is not pedantry. Indecision, rejection and conviction are interpretations of a crowd's state of mind; the numbers describe where a price was at four moments. The interpretation may be right, and it is not contained in the drawing.

It is also worth noticing that these are nouns. None of them is a sentence, and none of them tells you to do anything. A guide that lists the shapes and stops has taught you vocabulary and left you to invent the grammar, which is roughly where most readers of candlestick material end up.

04

Two candles

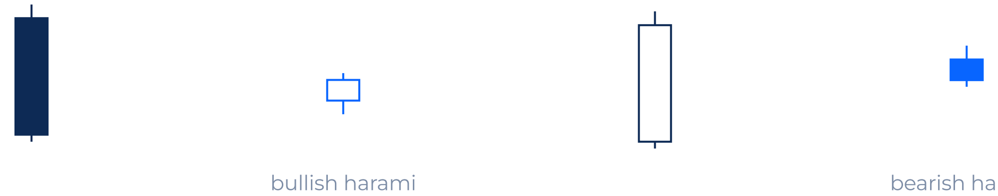
The two-candle patterns are relationships rather than shapes, and they are the most useful part of the vocabulary because a relationship is easier to define precisely than an adjective is.

bullish engulfing

bearish engulfing

Engulfing, both directions. The second body covers the first entirely; on the left a down candle swallowed by an up candle, on the right the reverse. What makes it a pattern is not the size of the second candle but the relationship between the two bodies.

Engulfing is the clearest of them. The second body covers the first body completely — opening beyond one end of it and closing beyond the other. Note what the definition does and does not include: it is about the bodies, not the wicks, and it says nothing about how large the second candle is in absolute terms.



Harami — the inside pattern, and the exact inverse of engulfing. A large body followed by a small one contained within it. The word is Japanese for pregnant, which is a better mnemonic than most of the terminology.

Harami is the exact inverse: a large body followed by a small one that sits entirely inside it. Where engulfing says the second period overturned the first, harami says the second period did not go anywhere at all — the argument that produced a large move has stopped producing one.

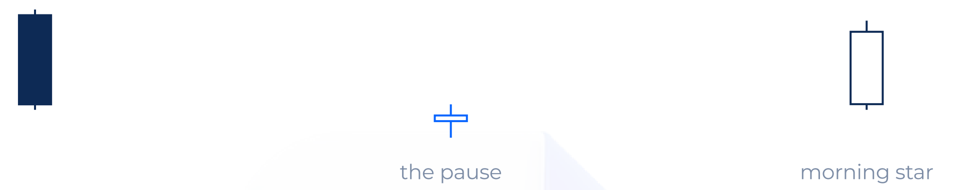
Piercing line and dark cloud cover — the half-measure versions of engulfing. The second candle does not cover the first body; it closes past its midpoint. The midpoint is the whole definition, and it is the part most often eyeballed rather than measured.

Piercing line and dark cloud cover are the half-measures. The second candle does not cover the first body but closes past its midpoint. The midpoint is the entire definition and it is a number, which means it can be checked — and which means, in practice, that it is usually eyeballed and often wrong.

05

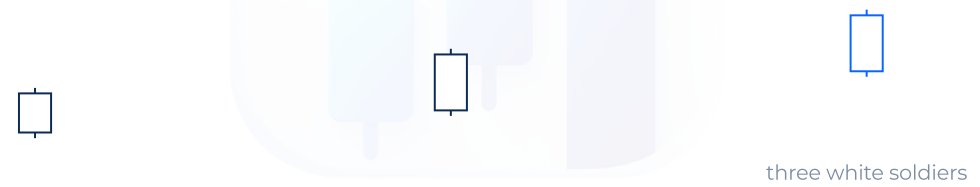
Three candles

Three-candle patterns are rarer, and their rarity is the most interesting thing about them.



The morning star: a decisive down candle, a small indecisive one, then a decisive up candle closing well into the first. The evening star is this figure reversed. Three periods, and the middle one carries the claim.

The morning star is a decisive down period, then a small one that settles nothing, then a decisive up period that closes well inside the first. The evening star is the same figure upside down. The claim is a sequence rather than a shape: a move, a hesitation, a reversal.



Three white soldiers, and the reason the shape is persuasive: three consecutive periods each opening inside the previous body and closing above it. It is a description of a trend, which is also the reason it is a poor entry — by the third candle the move it describes has already happened.

Three white soldiers is three consecutive periods each opening inside the previous body and closing above it, and it is worth looking at carefully because it illustrates a general problem. The pattern is a description of a trend that has already run for three periods. By the time it is complete, the move it describes is behind you — and entering on the third candle means buying after three consecutive up periods, which is a worse price than any of them.

Pattern	Periods	The claim
Engulfing	2	the second period reversed the first entirely
Harami	2	the move stalled inside the previous range
Piercing / dark cloud	2	the reversal reached past the midpoint
Morning / evening star	3	a decisive move, a pause, a decisive reversal
Three soldiers / crows	3	three consecutive periods in one direction
Tweezers	2	two periods rejected at the same extreme

The patterns worth knowing, by how many periods they take and what they claim. The last column is the honest one: a claim is not a finding, and every row here is a claim until you have tested it on your own instrument.

That table is the working vocabulary. The last column is deliberately headed the claim rather than the meaning, because that is what each of these is until it has been counted on your own instrument. The rest of this paper is about how to do the counting.

06

The same candle in two places

Here is the single most important thing to understand about candle patterns, and it is easier to see than to argue.

The identical hammer, twice. Everything the shape can carry — its four numbers, its proportions, its accent — is the same in both places. If the pattern were the signal, these would be the same event.

Those are the same candle. Not similar — identical, in all four numbers and every proportion. If the pattern were the signal, they would be the same event and would deserve the same response.

	After a sustained fall	In the middle of a range
Who is trapped	Sellers with profit to protect and buyers who have been wrong for days.	Nobody in particular. Both sides have been here this week.
What the low means	A level that has not been visited, tested and rejected.	A level that has been visited four times and means nothing new.

Why those two identical candles are not the same event. Everything that separates them lies outside the shape, which is the single most important thing to understand about candle patterns.

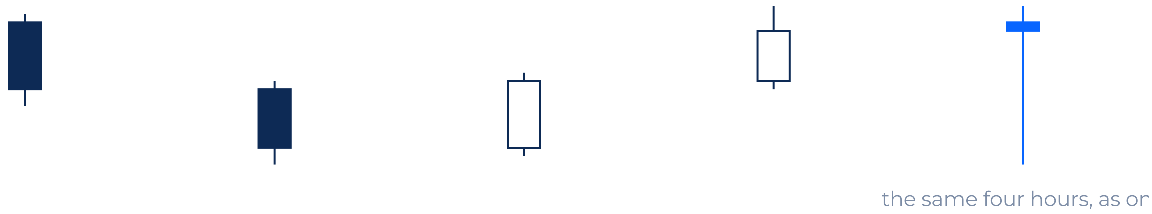
They are not the same event, and everything that separates them is outside the drawing. After a sustained fall, that low is a level nobody has tested; sellers have profit to protect and recent buyers are trapped. In the middle of a range, the same low has been visited four times this week and the candle reports nothing that was not already known.

This has a consequence that most candlestick material avoids stating plainly: the shape is the smallest part of the signal. A pattern that has not been located — that has no answer to where on the chart did this happen, and why does that level matter to anybody else — is a picture rather than a reason.

07

The pattern is a property of your chart

The second uncomfortable fact is that a candle is not a natural object. It is what you get when you cut a continuous stream of prices at two chosen moments, and choosing differently produces a different object.



The same four hours, cut two ways. On the left, four hourly candles; on the right, the single four-hour candle they add up to — a textbook hammer that exists only because of where the periods were divided. Neither picture is wrong, and only one of them contains a pattern.

The four candles on the left and the single candle on the right are the same four hours of the same market. Cut hourly, there is no pattern — a fall, a further fall, a recovery, a continuation. Cut as one four-hour period, the identical price action becomes a textbook hammer, with a long lower wick and a close near the high.

Neither picture is wrong. Both are accurate summaries of what happened. But only one of them contains a pattern, and which one you see is decided by a setting in your software rather than by anything the market did.

Change this	And the candle	Which means
The timeframe	changes shape entirely	the pattern is a function of the cut
The session start	moves the open and the close	the body is set by a clock, not a market
The instrument's hours	gaps appear or vanish	some patterns cannot exist at all
A 24-hour market	the close is arbitrary	the most important number is a convention

What the period boundary decides, which is more than most guides admit. Every row is a way in which a pattern is a property of your chart settings rather than of the market.

The last row is the sharpest. In a market that never closes, the daily close is a convention — a clock somewhere chose it — and the close is the number every candle pattern is built on. That does not make the patterns useless, but it does mean that a pattern on a 24-hour instrument is a statement about a widely-used convention rather than about a natural boundary, and it is worth knowing which of those you are trading.

08

What a pattern is evidence of

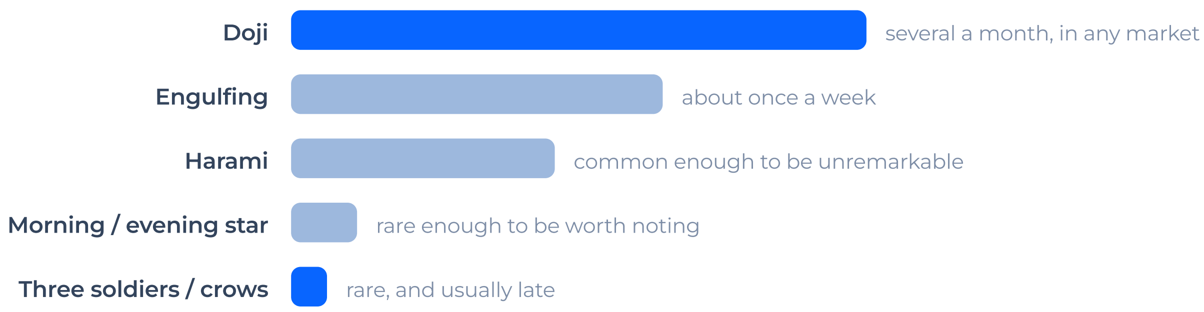
With location and timeframe on the table, the honest version of the claim can be stated.

	It is evidence of	It is not evidence of
About the period just past	A described, dated fact: where price opened, ranged and closed.	That the same fact will be followed by the same outcome.
About the period ahead	That one side failed at an extreme within that period.	That they will fail again, or that anyone else noticed.

What a candle pattern is and is not evidence of. The left column is real and useful; the right is what the pattern is usually asked to do, and it cannot do it.

The left column is real. A candle is a described, dated fact, and a pattern is a described, dated relationship between facts. When a hammer prints, something did happen: a low was reached within that period and price did not close near it. That is not nothing, and it is more than a line chart would have told you.

The right column is what the pattern is usually asked to carry, and it cannot. That the same shape was followed by a rally on the occasions you remember is not evidence that it will be followed by one now, and the shape contains no information about whether anybody else is looking at it.



Schematic, and the reason a pattern needs counting before it needs believing: the common shapes are common. Each bar is roughly how many times a year a pattern appears on a daily chart of one liquid instrument — a signal that fires two hundred times is a description of ordinary trading.

That figure is the argument in its plainest form. The common patterns are common — a doji several times a month in any liquid market, an engulfing candle roughly weekly. A signal that fires two hundred times a year on one instrument is not identifying a rare condition; it is describing ordinary trading, and treating it as a trigger means trading ordinarily and paying the spread each time.

The rare ones are more interesting for exactly the opposite reason, and come with the opposite problem: a pattern that appears six times a year gives you six data points a year, which is not enough to conclude anything within a career.

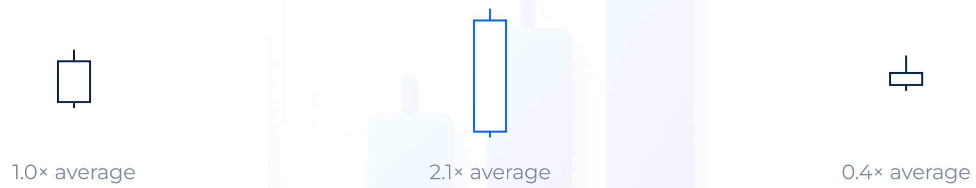
09

Testing one yourself

None of the above settles whether candle patterns work, and nothing written by anyone else will settle it for your instrument either. The good news is that this is one of the few questions in trading a beginner can genuinely answer in an afternoon.

How to test a candle pattern yourself, in an afternoon. The third step is the one that turns an opinion into a number, and the fifth is the one that stops you fooling yourself with the outcome you already expected.

The first step is where most attempts fail before they start. A long green candle after a downtrend near support is not a definition — three of its four terms are adjectives, and two people applying it to the same chart will disagree. It has to become arithmetic before it can become a count.



Three candles that a loose definition calls the same thing. All three are long green candles; the first is ordinary for this instrument, the second is twice its usual body, the third is barely a body at all. Only the middle one clears a threshold of one and a half times the recent average — and without the threshold, all three qualify.

That figure is the problem in one picture. All three of those are long green candles, and a definition written in adjectives admits all three. Only the middle one is twice the instrument's recent average body; the third is barely a body at all and would still pass a reader's eye on a fast scroll.

As usually written	As it must be written to be tested
A long green candle	body ≥ 1.5× the average body of the last 20
A small body	body ≤ 0.3× the same average
After a downtrend	close below the 20-period average for 5 periods
Engulfs the previous candle	open ≤ previous close and close ≥ previous open
Near support	within 0.5× ATR of a level touched twice in 60 periods

The same pattern, described the way guides describe it and the way a test requires. Every row on the right can be checked by somebody else and produce the same answer, which is the only property that matters here.

The right column of that table is what a testable definition looks like. Every line can be applied by somebody who was not there and produce the same answer. The numbers themselves are not sacred — one and a half times the average body is a choice — but the fact that there is a number is what makes the exercise possible at all.

The fourth step is the one that separates a test from a story. Counting what happened after your pattern tells you almost nothing on its own; you need to know what happened after every other period in the same data. If price rose over the next five days sixty per cent of the time after your hammer, and it also rose sixty per cent of the time after any randomly chosen day, then your hammer has told you what the market was doing anyway.

	What is often found	What is rarely found
The pattern alone	A small edge, often smaller than the spread that pays for it.	A reliable, tradeable signal on its own.
The pattern in context	A measurable improvement when location and trend are required too.	That the improvement survives unchanged on a different instrument.

What tests of this kind tend to produce, stated fairly. The published work is genuinely mixed, and both cells on the left are more common findings than either enthusiasts or dismissers usually admit.

What tests of this kind tend to find is worth stating fairly, because both camps overstate. The published literature is genuinely mixed rather than uniformly damning; the common result is a small edge, often too small to survive the spread that pays for it, and often larger when the pattern is required to occur in a particular location and trend rather than anywhere at all. What is rarely found is a shape that works alone, and what is rarer still is one that keeps working unchanged on a different instrument.

10

Turning a candle into a rule

If a pattern survives your own counting, the next step is the one this library keeps returning to: writing it down so precisely that somebody else could run it.

Field	This rule says
Universe	one liquid instrument, chosen in advance
Condition	close below the 20-day average for the last 5 days
Location	within 0.5× ATR of a low touched at least twice in 60 days
Trigger	a bullish engulfing candle completing at the daily close
Invalidation	the low of the engulfing candle
Size	0.5% of the account, computed from that distance
Exit	half at 2R, the rest on a close below the 10-day average

A candle turned into a rule, written out. Nothing here is recommended; the property being demonstrated is that every line can be checked by somebody who was not there, which is what separates a rule from a reading.

Read it as a stranger would. There is no instrument to choose, no judgement about whether the trend counts, no assessment of whether the level is important enough, and no decision about size. The candle appears once, as the trigger, and it is the smallest line in the document.

The rule opposite, drawn. Five periods below the average and falling, a low revisited from earlier in the range, then the engulfing candle that completes at the close — the accent candle is the only one the rule reacts to, and the four before it are what make it mean anything.

Drawn out, the proportions of the thing become obvious. Four periods establish the direction and mark the level; the fifth is the candle. The pattern is the last and smallest part of the sequence, and it is the only part most guides discuss.

The line	What it supplies that the candle cannot
The condition	a direction, so the pattern is not read in a vacuum
The location	a reason this level matters to anybody else
The invalidation	a price at which the reading was simply wrong
The size	survival, which no pattern has ever provided
The exit	an ending, which the pattern does not contain

Why each line of that rule exists. Read the right column as the list of things the candle itself was never able to tell you.

That second table is why. The right column is the list of things the candle was never able to tell you: a direction, a reason the level matters to anyone else, a price at which you were simply wrong, a size that lets you survive being wrong, and an ending. Five things, none of them in the drawing, all of them required before the drawing means anything.

This is also the answer to the question the video that prompted this paper implicitly asks — which pattern is best. None of them is best, because the pattern is the trigger and the trigger is the cheap part. Two traders using the same engulfing candle, one with the four lines above and one without, are not running variants of the same method; they are running a method and a habit.

11

Where candles genuinely help

A paper that only takes things away has not finished its job. Candles do earn their place, and it is worth being exact about where.

	What they are good for	What they are sold as
As a display	Four numbers per period, readable at a glance — better than a line chart.	A language the market speaks, if you learn to read it.
As a signal	A trigger, once a direction and a location have been established.	A reason to enter, on their own, anywhere on the chart.

Where candles genuinely earn their place. The left column is real and modest; the right is the promise the format is usually sold with, and the gap between them is this paper.

As a display they are simply better than the alternative. Four numbers per period, legible at a glance, with the relationship between them visible without arithmetic — that is a real improvement over a line, and it is why the format outlived its origins in Japanese rice trading and became the default on every platform.

As a trigger, inside a rule that has already established a direction and a location, they are useful in a specific and modest way: they give you a defined moment and, more valuably, a defined invalidation. The low of a hammer is a price. It is not a feeling about where support might be, and a stop placed there can be justified to somebody else.

What they are not is a language the market speaks. The metaphor is attractive and it quietly smuggles in the claim that there is an intention behind the shapes for a reader to decode. There are only transactions, summarised at a boundary somebody chose.

12

What this does not settle

Three limits, in the spirit of the rest of this library.

First, nothing here proves candle patterns do not work. It shows that the shape carries less than it is credited with, that context and timeframe carry most of the rest, and that the question is answerable by counting. If your own count on your own instrument says otherwise, your count beats this paper.

Second, a pattern that tests well over two years has passed a small test. Two years of one instrument is a few hundred occurrences at best for a common pattern and a dozen for a rare one, and both of those are samples that can flatter a shape by accident.

Third, this paper has been silent on volume, which some readers will consider an omission. That is deliberate: a candle is four price numbers, and adding a fifth from a different source is a different technique with a different evidence problem, better treated on its own than smuggled into a paragraph here.

Term	As used in this paper
Body	The distance from the open to the close.
Wick	The reach beyond the body, to the high or the low.
Pattern	A relationship between one to three consecutive candles.
Location	Where on the chart the pattern occurred, relative to prior price.
ATR	Average true range: a measure of a period's typical size.
R	One unit of planned risk: the distance from entry to stop.

The terms this paper uses in a fixed sense. Several are used loosely in candlestick writing; where that happens, the narrower reading here is meant.

The useful summary is short. Learn the vocabulary — it is small, it is standard, and it costs an afternoon. Then treat every pattern as a claim about a location rather than a shape, test the ones you intend to use, and write the surviving one into a rule that says what happens when you are wrong. The drawing is the easy part, which is why so much material stops there.

> Educational content only. Nothing in this document is financial advice, and no part of it is a recommendation to buy or sell anything.