

# Candlestick & Pattern Analysis

## What Type of Trader Are You?

Before diving into candlesticks, you need to know which timeframe suits your personality. The candles you look at depend entirely on your trading style.

| Style                  | Timeframe          | Hold Period          | Risk     | Reward              | Stress    | Best For                                   |
|------------------------|--------------------|----------------------|----------|---------------------|-----------|--|
| <b>Position Trader</b> | Weekly / Monthly   | Months to years      | Low      | Low (slow)          | Low       | Long-term investors, relaxed personality   |
| <b>Swing Trader</b>    | Daily / Weekly     | Days to weeks/months | Low-Med  | Medium (takes time) | Low-Med   | Patient traders, don't need daily results  |
| <b>Day Trader</b>      | 5min / 15min / 1hr | Within the day       | Med-High | Higher (faster)     | Higher    | People who thrive on pressure              |
| <b>Scalper</b>         | 1min / 5min        | Minutes to hours     | High     | High (immediate)    | Very High | Adrenaline lovers, decisive under pressure |

**Key insight:** Your personality determines which style works. If you love roller coasters and spontaneity → scalping/day trading. If you prefer the beach and reading → swing/position trading. The educator started as a day trader (loved the rush, got fast feedback for learning), then transitioned to position trading as his life and priorities changed.

**Match your chart timeframe to your style:** Position trader = weekly/monthly. Swing trader = daily/weekly. Day trader = daily/hourly. Scalper = 1min/5min.

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## Anatomy of a Candlestick

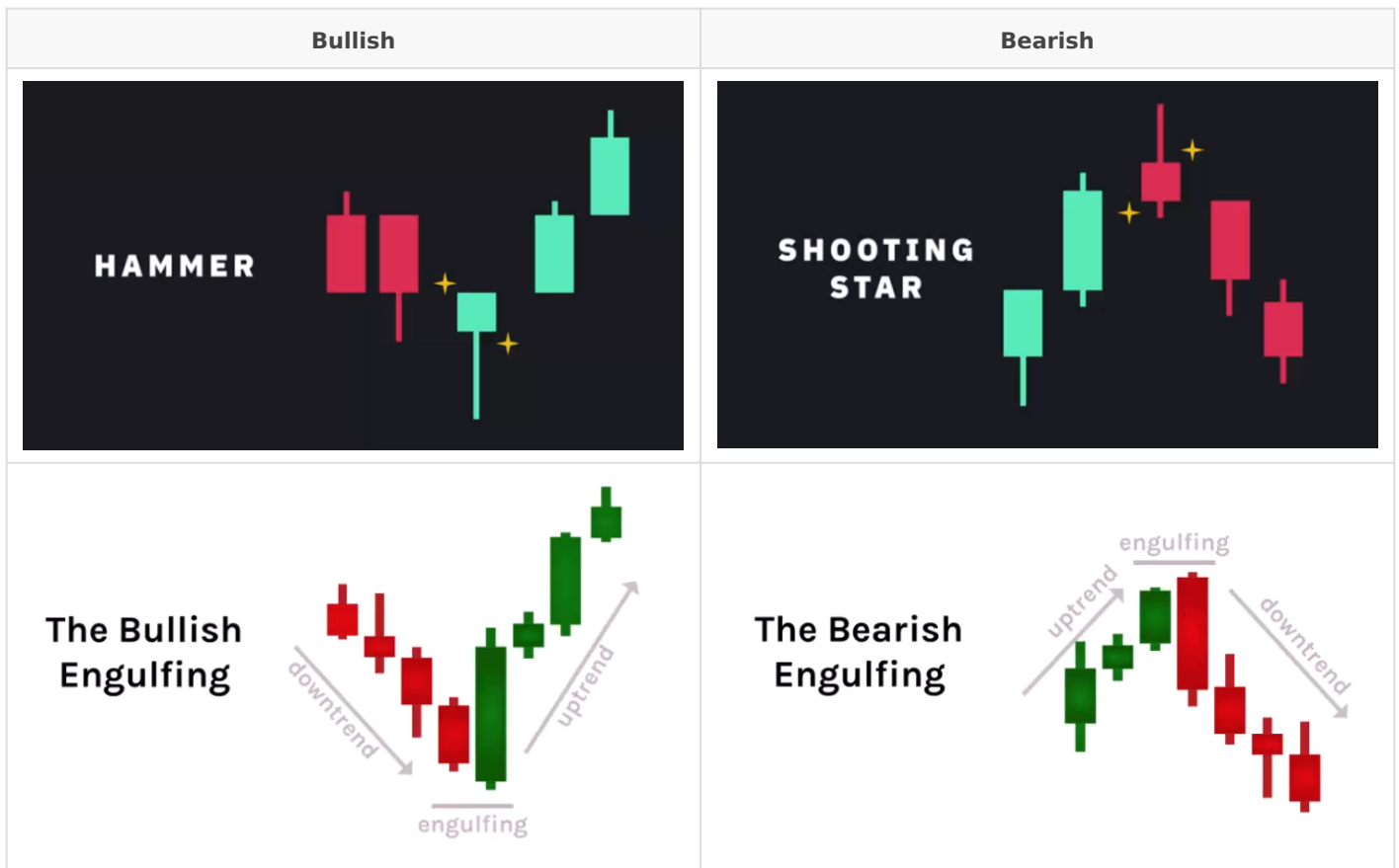
Each candle gives four pieces of data: **Open, Close, High, Low.**

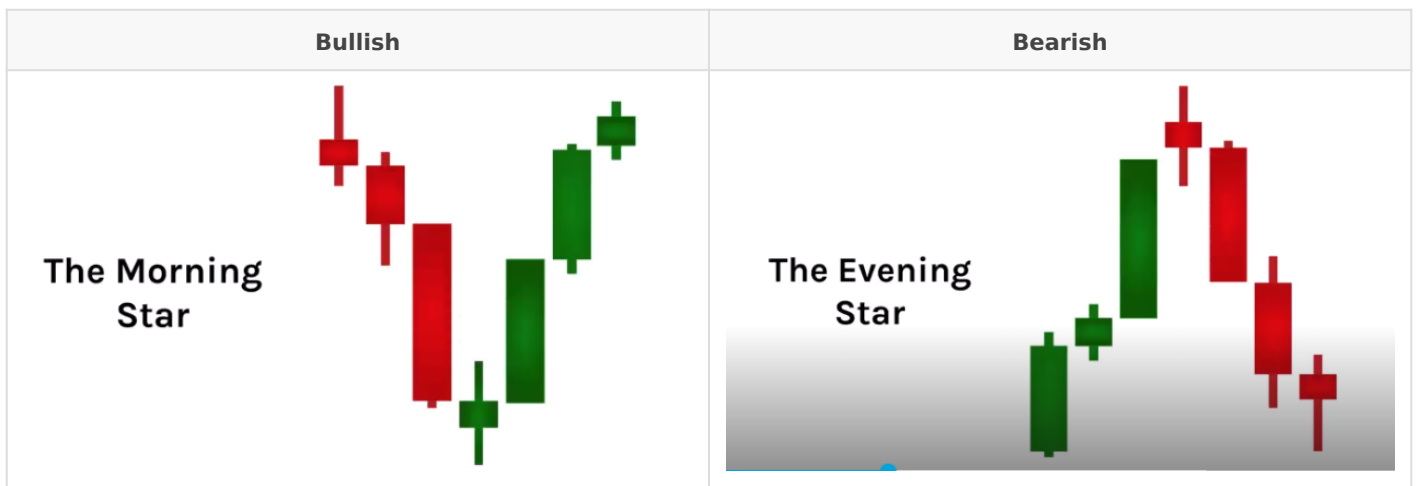
- **Body** = range between open and close
- **Wicks/Shadows** = the high and low extremes the price reached during the period
- **Green/White** = closing price was HIGHER than opening price (bullish)
- **Red/Black** = closing price was LOWER than opening price (bearish)

**Multi-timeframe unpacking:** A single daily candle can be unpacked by looking at the hourly/5min charts within that day. A bullish engulfing on the daily might show a clear downtrend reversal on the hourly. A bearish shooting star on the daily might show a strong downtrend on the 1-minute. This helps you understand what's actually happening inside each candle.

# Candlestick Patterns

## Reference Charts





No pattern works all the time — they represent tendencies, not guarantees. Always confirm with volume and other indicators.

## Single Candle Patterns

**Marubozu ("Bald Head"):** No or minimal wicks — open/close IS the high/low. Bullish marubozu = intense buying pressure throughout the session. Bearish marubozu = intense selling pressure. These are powerful trend confirmation candles.

**Hammer / Shooting Star:** Long wick at one end, small body. Hammer (bullish) = long lower wick at bottom of downtrend, buyers stepped in hard. Shooting Star (bearish) = long upper wick at top of uptrend, sellers pushed price back down. Can be either colour.

**Spinning Tops / Dojis:** Short body centered between long upper and lower wicks. Neutral — represents indecision between bulls and bears. What matters is the candle that follows: big green after a doji = bulls won. Big red = bears won.

## Multi-Candle Patterns

**Bullish/Bearish Engulfing:** Two candles where the second completely engulfs the first. Bullish engulfing at bottom of downtrend = reversal signal (buyers overwhelmed sellers). Bearish engulfing at top of uptrend = reversal signal. Look for high volume to confirm.

**Inside Bar (Harami):** Small candle completely inside the previous candle's range. Shows the trend is pausing — indecision. The next candle determines direction.

**Morning Star / Evening Star:** Three-candle reversal pattern. Morning star (bullish) = long red → doji/small body → long green. Evening star (bearish) = long green → doji/small body → long red. The doji shows the battle, the third candle shows who won.

## Volume with Candlestick Patterns

- **Reversal patterns** (engulfing, hammers, stars) should have HIGH volume to confirm
- **Climax/exhaustion** candles at the end of trends often show extreme high volume
- **Trend confirmation** candles (marubozu) should be accompanied by strong volume in the trend direction

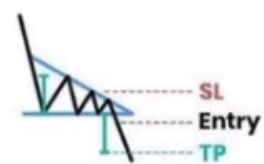
# Chart Patterns

## Bullish Continuation



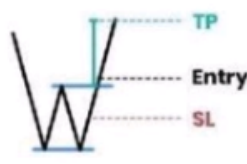
Ascending Triangle

## Bearish Continuation



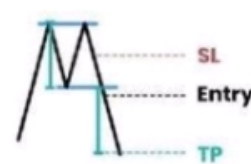
Descending Triangle

## Bullish Reversal



Double Bottom

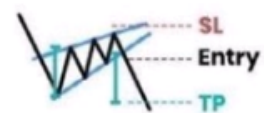
## Bearish Reversal



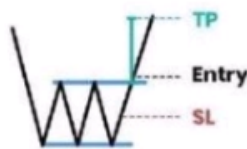
Double Top



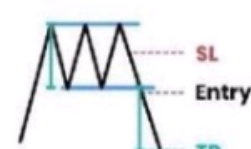
Bullish Wedge



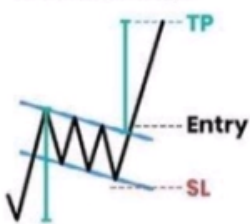
Bearish Wedge



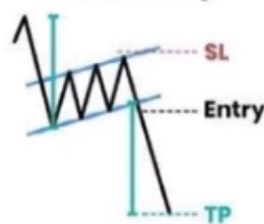
Triple Bottom



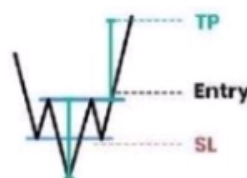
Triple Top



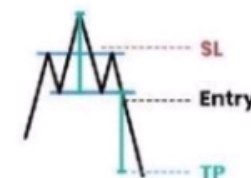
Bullish Flag



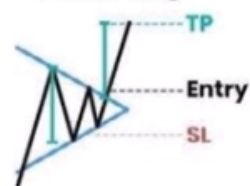
Bearish Flag



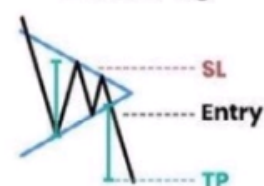
Inverted H&S



Head & Shoulders



Bullish Symmetrical Triangle



Bearish Symmetrical Triangle



Falling Wedge



Rising Wedge

**ASX Trader's honest take:** "If I had to drop one lesson from the entire course, it would be this one." He's not a chart pattern trader — patterns can go either way and markets sometimes do the opposite because everyone is watching the same pattern. However, patterns complement other tools and provide useful common language.

**The key principle:** Don't just trade because you see a pattern. Unpack what's under the hood — it's all market structure. If you can identify pivot points and market structure, you don't technically need to know pattern names. But knowing the language helps communicate with other traders.

# Continuation Patterns

## Triangles

Converging price ranges showing a pause in the trend. Three types:

**Symmetrical:** Both lines converging at equal slopes. No directional bias — neutral consolidation. Direction depends on the breakout.

**Ascending:** Horizontal resistance + rising support (buyers stepping in higher each time). ~80% probability of upside breakout. Eventually sellers get exhausted.

**Descending:** Horizontal support + falling resistance (sellers stepping in lower each time). Eventually buyers get exhausted and it breaks down.

**Elliott Wave connection:** Triangles occur before the FINAL wave (wave 5 / excess phase). After a triangle breakout, expect one last push, then a correction. This is why triangle breakouts can trap retail traders — the move after the triangle might be short before rolling over.

**Breakout vs fake-out:** If a triangle breaks out and comes back within the pivot, it was likely a fake-out or a short excess phase. Check volume — breakout should be on high volume. Also check for divergence from the start to end of the triangle.

## Flags & Pennants

Flags are short consolidation periods against the trend direction after a sharp impulse move (the "pole"). They're strong continuation patterns.

**Bull Flag:** Uptrend → sharp move up (pole, high volume) → consolidation down (flag, low volume) → breakout continuation (high volume). The flag should NOT retrace past the Fib 382 (maybe 500 max). If it goes to 618, it's too deep — it's not a flag, it's a weak trend.

**Bear Flag:** Downtrend → sharp move down → consolidation up to the zag zone (302-618) on low volume → breakdown on high volume.

**Pennants:** Same as flags but the consolidation forms a small symmetrical triangle instead of a channel. Also shouldn't retrace past 382.

## Cup & Handle

Continuation pattern: prior uptrend → rounded bottom (the cup) → small pullback (the handle, which is basically a bull flag) → breakout. Handle should retrace to Fib 382, max 500. Handle must form on lowering volume. Breakout on increasing volume. Measured target = depth of the cup projected upward from the breakout.

## Darvas Box (Rectangle)

Sideways consolidation with equal highs and equal lows. When it breaks out, check: is volume confirming? If breakout comes back within → liquidity grab (check OBV — was it going up on lowering volume?). If it breaks out and continues with strong volume → genuine breakout.

# Reversal Patterns

## Head & Shoulders / Inverse H&S

**A head & shoulders is just a failure swing.** Shoulder, head, shoulder = higher high, higher low, higher high, then lower high (the right shoulder fails to reach the head), then breaks the neckline.

### Advanced H&S with volume and divergence:

- Left shoulder forms on increasing volume
- Head forms on LOWERING volume (weakness) + bearish divergence from left shoulder to head on RSI
- Right shoulder forms on LOWERING volume (dumb money buying the dip)
- Neckline break should come on increasing volume (sell pressure confirms)
- Measured target = distance from neckline to head

The neckline doesn't have to be horizontal — it can be diagonal.

**Fractals:** Each wave can have its own mini head & shoulders. Multiple small H&S patterns combine to form one large H&S (accumulation → public → excess → correction).

## Wedges (ASX Trader's Favourite)

Converging trend lines both moving in the same direction (unlike triangles where they move in different directions).

**Falling Wedge (Bullish):** Both lines sloping down but converging. Tension builds as the trend tightens. Breakout to the upside on increasing volume. **ASX Trader's favourite pattern** — gives phenomenal risk:reward because you can enter on the breakout and place a tight stop loss. Target = back to the top of where the wedge started. Look for bullish divergence on both OBV and RSI as it comes down the wedge.

**Rising Wedge (Bearish):** Both lines sloping up but converging. Uptrend getting weaker. Should be going up on decreasing volume. Breakdown on strong volume.

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# Multi-Timeframe Candlestick Analysis

1. **Identify primary trend** on higher timeframes (daily, weekly, monthly)
2. **Confirm on lower timeframes** — look for consistent patterns aligning with the primary trend
3. **Spot entry/exit points** on even lower timeframes (15min, 5min) for precise entries
4. **Detect confluences** — a bullish reversal pattern on the daily, supported by a similar pattern on the 4-hour, with increased volume = strong setup

Example: A bullish engulfing on the daily = look inside and you might see a double bottom on the hourly. Two reversal signals confirming each other across timeframes.

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## Advanced Pattern Analysis — Combining Everything

The real power of patterns comes from combining them with volume and divergence:

### For reversal patterns (H&S, wedges):

- Look for divergence on BOTH RSI and OBV as the pattern forms
- The reversal candles should have high volume
- The continuation into the pattern should show lowering volume (weakness)
- When you get divergence on price momentum AND volume momentum, plus a change of market structure = high probability setup

### For continuation patterns (flags, triangles, boxes):

- The consolidation should happen on lowering volume
  - The breakout should happen on increasing volume
  - OBV should confirm the breakout (if OBV doesn't break out with price, it's likely a fake-out)
  - Triangles = one more push before a correction (excess phase), so trade with awareness it might be short
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