Mastering Candlestick Charts 1
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**Cutting Through the Candlestick Hype**

- The signals on a bar chart are the same as a candle chart.
- Those signals will be seen at the same time and are no more reliable than those of a bar chart.
- The use of indicators will not increase the reliability of candles.
- There are no advanced candlestick patterns, but there is a deeper understanding of price movements and that is the focus of The Pristine Method®.

So, why use candle charts at all?
Candlestick Analysis

**Why Use Candlesticks?**

- Provides a visual **picture** of what is occurring.
- Gives visual insights into others’ thoughts and expectations.
- Gives visual confirmation signals of support and resistance.
- Can visually align your thoughts with the market.
- Can visually point to potential reversal points.

*Can a bar chart do this? Yes, but you can do it faster with candles!*
Proper trading is said to be proper thinking, but how do we know what to think?

Pattern recognition is a recurring arrangement of price bars that suggests the future movement of prices, which guides our thoughts.

These patterns communicate how traders have acted and what their beliefs (expectations) are in that time frame, at the moment.

Candles provide a picture of those expectations on an ongoing basis.

Those pictures speak to us in “Candle Language” and are the basis for our continuous thoughts and trading decisions.
Miscellaneous Thoughts on Candlesticks

Attempting to define the accuracy of candle names or patterns without considering the trend, support and resistance is useless.

There are at least 50 different candle patterns, bullish and bearish. Some memorize them, but you will see this is completely unnecessary.

While candles are very good at visually showing reversal signals, the signals that do not work are often the most powerful!

All that is needed is a chart of price bars -- all else is secondary.

While other analysis tools may add additional information, they can only follow existing price action.
Candlestick Basics
Candlesticks show the same O, H, L, C information as Western bars, but the battle between buyers and sellers is “visually” clearer.

**Open on Left**

**Close on Right**

The Range of a bar is the difference between the high and the low.

- **Closes above the Open = Green**
- **Closes below the Open = Red**
Candlestick Analysis

**Candle Bars**

- Wick
- Close
- Open
- Body
- Low
- Shadow, Wick or Tail
- High
- Tail
- Open
- Body
- Shadow, Wick or Tail
- Close

*The candle body is the difference between the open and the closing prices.*

*The part on either side of the body is called a Shadow, Wick or Tail.*
Let’s first review most individual candles and their names to give you a background..

Remembering names is unnecessary because that will not help you use candles or understand their meaning!

When we are done with this DVD, not only will you understand what candles are saying, you will also:

- Have a objective method of knowing when to enter
- Know where to place a stop
- Know how to monitor a position once in it
Candlestick Analysis

The Individual Candles

**DOJI** – A bar with the open and close at or very near the same price

**Gravestone DOJI** – A Doji with the open and close at the bar’s low

**Dragon Fly DOJI** – A Doji with the open and close at the bar’s high

**Long Legged DOJI** – A Doji with long upper and lower shadows
Candlestick Analysis

The Individual Candles

**Spinning Top** – A bar with a small body and small range, after a multi-bar move.

**High Wave** – A bar with a small body and wider range, after a multi-bar move.

**Hammer** – A bar with a small body (red or green), long lower tail, and small to no upper tail, after a **multi-bar down move**.
Candlestick Analysis

The Individual Candles

**Inverted Hammer** – A bar with a small body (red or green), long upper tail, and small to no lower tail, after a *multi-bar down move*.

**Hangman** – A bar with a small body (red or green), long lower tail, and small to no upper tail, after a *multi-bar up move*.

**Shooting Star** – A bar with a small body (red or green), long upper tail, and small to no lower tail, after a *multi-bar up move*. 
Candlestick Analysis

Let’s begin to simplify all of these prior candles.

**Single Candle Questions:**

- Were the prior candles moving up or down?
- Was there a tail on the top, bottom or both sides of the body?
- Was the body relatively small in relation to the candle range?

*Interpretation – Momentum slowed down and there may have been an increase in buying or selling.*
As you can see, an individual candle may or may not result in a reversal.

More information is needed for them to be meaningful.
Candlestick Analysis

Two-Bar Combinations

Harami Cross Bullish – A DOJI inside a large red body.

Harami Cross Bearish – A DOJI inside a large green body.

Harami Bullish – A small green bar inside a large red body.

Harami Bearish – A small red bar inside a large green body.
Candlestick Analysis

Two-Bar Combinations Con’t

**On Neck Line Bullish** — A green candle that opens below the low of a prior red candle (gap) and closes at the low of the prior candle.

**On Neck Line Bearish** — A red candle that opens above the high of a prior green candle (gap) and closes at the high of the prior candle.

**In Neck Line Bullish** — A green candle that opens below the low of a prior red candle (gap) and closes at the close of the prior candle.

**In Neck Line Bearish** — A red candle that opens above the high of a prior green candle (gap) and closes at the close of the prior candle.
Candlestick Analysis

**Two-Bar Combinations Con’t**

**Thrust Line Bullish** — A green candle that opens below the low of a prior red candle and closes inside the prior red candle’s body, but **below the midpoint**.

**Thrust Line Bearish** — A red candle that opens above the high of a prior green candle and closes inside the prior green candle’s body, but **above the midpoint**.

**Piercing Line Bullish** — A green bar that opens below the low of a red bar and **closes above the midpoint of the prior bar**.

**Dark Cloud Cover Bearish** — A red bar that opens above the high of a green bar and **closes below the midpoint of the prior bar**.
**Candlestick Analysis**

**Two-Bar Combinations Con’t**

**Engulfing Bullish** — A larger green body engulfing a smaller red body.

**Engulfing Bearish** — A larger red body engulfing a smaller green body.

**Separating Lines Bullish** — A red candle followed by a green candle that opens (gaps) at or near the prior candle’s open.

**Separating Lines Bearish** — A green candle followed by a red candle that opens (gaps) at or near the prior candle’s open.
Let’s begin to simplify all of these prior candles.

**Two Candle Combination Questions:**

- Were the prior candles moving up or down?
- If a gap occurred, to what degree did it fail to follow through?
- How far did the current bar retrace and close into the prior?
- Was there a complete reversal of the prior candle?
- Interpretation – Momentum has shifted to varying degrees.
Two-bar combinations are an improvement over individual candles at signaling reversals.

Now let’s look at three-bar combinations.
Candlestick Analysis

Three-Bar Combinations

**Morning Star Bullish** – The first bar is a long red bar; the second gaps below the prior body; the third closes well into the first.

**Evening Star Bearish** – The first bar is a long green bar; the second gaps above the prior body; the third closes well into the first.

**Morning/Evening DOJI Star** – Replace Star with DOJI
Let’s begin to simplify all of these prior candles.

Three-Bar Combination Questions:

- Were the prior candles moving up or down?
- To what degree did momentum slow and begin to shift?
- To what degree did the next candle penetrate and close into the prior candles?

Interpretation – Momentum slowed down, reversed and there has been an increase in buying or selling.
Candlestick Analysis

The three-bar patterns are considered more potent than the single or two-bar patterns.
Some would say: Candle messages occurring within a consolidation are meaningless.

In time, you will see how they offer very valuable information.

Not all candles will produce a reversal, but they all have meaning!
Candlestick Analysis

At times, candle patterns have No Follow Through (NFT) to their suggested meaning.

Red bars ignored (RBI) and Green bars ignored (GBI) can provide powerful messages!
The basics offered a good starting point for the interpretation of candlesticks.

In the next sections, we are going to look at candlestick analysis from the Pristine point of view.

A deeper understanding of candlestick analysis will not only demystify them, but will also simplify their use.
Beyond the Basics of Candlesticks
Candlestick analysis is the study of momentum increases and decreases, which may lead to a price reversal.
## Candlestick Analysis

**Common Candle Terms:**

- Engulfing Bar, Piercing Bar,
- Dark Cloud Cover, Harami,
- Thrusting Line.
- Doji, Star, Hammer, Hangman

**Pristine Candle Terms:**

- **COG** – These have different levels of penetration into the prior bar’s range
- **NRB, NB, BT, TT** – Different levels of slowing momentum
- **WRB** – An increase in range or momentum compared to recent bars.

- Terms are unimportant, each candle’s message is.
- Do **NOT** assume the outcome of the current candle and or message.
- A candle is not complete until that time period ends.
- The combination of candle messages will speak to you.
Candlestick Analysis

**COG REVERSAL BAR**

*Bullish Reversals*  
*Bearish Reversals*

**Pristine Tip:** While there are different variations, the *message* is always the same! A reversal in momentum *has* occurred!
Narrow Range Bodies (NB)

Bars in which the body of the candle is small relative to the overall length of the candle. They may have Tails on either side of the body.

The appearance of tails shows uncertainty in the prevailing trend of bars.

Pristine Tip: While there are different variations, the message is always the same! A slowing in momentum has occurred!
**Narrowing Range Bars (NRB)**

A series of bars in which the difference between the highs and lows is narrowing.

**Pristine Tip:** While there are different variations, the message is always the same! A slowing in momentum is occurring!
Candlestick Analysis

Sell Setup
3 or more bars up in downtrend.

Bearish Doji Star
Gapped up, and opened and closed at the same price.

Bearish Star
Gapped up, closing under open, leaving a small real body.

Bearish Hangman
Narrow range body with topping tail, near higher end of prior bar.

Bearish Shooting Star
Narrow range body with topping tail, near higher end of prior bar.

Bearish Harami
Opened near the prior bar’s close, rose and fell during the day, closing with small real body.

Bearish Thrust
Gapped up and closed down less than half way into the prior bar’s range.

Bearish Piercing
Gapped up and closed down over ½ into the prior bar’s range.

Bearish Engulfing
Gapped up and fell down to engulf the entire prior bar’s real body.

*Prices are trending higher, the potency of the reversal signals are increasing.*
Candlestick Analysis

<table>
<thead>
<tr>
<th>Buy Setup</th>
<th>Bullish Doji Star</th>
<th>Bullish Star</th>
<th>Bullish Inverted Hammer</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 or more bars</td>
<td>Gapped down, and opened</td>
<td>Gapped down, closing</td>
<td>Narrow range body with</td>
</tr>
<tr>
<td>down in uptrend.</td>
<td>and closed at the same</td>
<td>over open, leaving a</td>
<td>topping tail, near lower</td>
</tr>
<tr>
<td></td>
<td>price.</td>
<td>small real body.</td>
<td>end of prior bar.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bullish Hammer</th>
<th>Bullish Harami</th>
<th>Bullish Thrust</th>
<th>Bullish Piercing</th>
<th>Bullish Engulfing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow range</td>
<td>Opened near the prior</td>
<td>Gapped down and</td>
<td>Gapped down and</td>
<td>Gapped down and</td>
</tr>
<tr>
<td>body with</td>
<td>bar’s close, fell and</td>
<td>closed up less than</td>
<td>closed over ½ into</td>
<td>rose up to engulf the</td>
</tr>
<tr>
<td>bottom tail,</td>
<td>rose during the day,</td>
<td>half way into the</td>
<td>the prior bar’s range.</td>
<td>entire prior bar’s real</td>
</tr>
<tr>
<td>near lower end</td>
<td>closing with small real</td>
<td>prior bar’s range.</td>
<td></td>
<td>body.</td>
</tr>
<tr>
<td>of prior bar.</td>
<td>body.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Prices are trending lower, the potency of the reversal signals are increasing.*
Candlestick Analysis

**Topping Tail Bars (TT)**

- Normal or wide range bars in which prices had been higher, then supply forced prices below the mid-point of the bar’s range.

**Pristine Tip:** While there are different variations, the message is always the same! Distribution has occurred, and overhead Supply has been increased!

**Bottoming Tail Bars (BT)**

- Normal or wide range bars in which prices had been lower, then demand forced prices higher above the mid-point of the bar’s range.

**Pristine Tip:** While there are different variations, the message is always the same! Accumulation has occurred, and Supply overhead has been removed!

**Topping Tails**

- Topping and Bottoming Tails bars that are also a “Range Expansion” relative to prior bars have better odds of being an actual reversal point.
Candlestick Analysis

Has A Significant Shift In Momentum Occurred?

Potency is Increasing

Least Potent

Most Potent

As the size and number of candles that make the reversal increase, the potency increases.
Candlestick Analysis

You now have an understanding of some of Pristine’s terms and interpretation of candles.

Now let's look at **Wide Range Bars** and **Potent Reversals**, and consider these candles' effects on emotions and begin to think in "**Candle Language.**"
**Wide Range Bar (WRB)**

A bar in which the candle’s body is relatively wide compared to the most recent bars.

A Wide Range Bar after a period of low volatility ignites momentum in that direction.

A Wide Range Bar after an extended advance or decline typically happens near the end of a move. A NB or COG signals the turn.

![Image of Candlestick Chart]

- WRB Ignites
- WRB Ends
- WRB Ends
- WRB Ignites
A Narrow Range bar can indicate that momentum has slowed or that volatility is low.

A WRB or RE bar displays commitment and emotion.

A Wide Range Bar (WRB) is a Range Expansion (RE) by definition.

A Bottom Tail (BT) or Top Tail (TT) may or may not be a Range Expansion (RE) bar.

A WRB is an indication that momentum may soon slow or end an existing move.

A WRB Breakout or breakdown, after a consolidation, ignites a move in that direction.
Fear is increasing
Momentum is slowing, but fear is not extreme
Momentum is slowing, but greed is not extreme
Greed is increasing

The larger the reversal bar is in relation to the prior bar, the more potent
The level or depth of retracement into the prior candle increases potency

Expanding range indicates Fear or Greed is increasing and becoming extreme
Expanding range (increased volatility) increases the odds of a reversal

Potent
Not Potent
Potent
Not Potent
Candlestick Analysis

Range Expanded followed by a complete reversal, making it very potent!

Not climactic, but Potent

A retest of this low has better odds of a larger retracement

No fear, just slowing momentum

Climactic and Potent

Range Expansion after low volatility ignites a move

Not climactic, but Potent
Candlestick Analysis

- Wide Range Bar

This Bottom Tail bar at (A) is also a Range Expansion and was a Wide Range Bar (-WRB) prior to completion!

What were traders thinking when the bar was forming as a –WRB, and then when it became a BT?

What are they thinking after the reversal at (C)?

What about the +WRB at (B) becoming a TT?
Candlestick Analysis

Combine the Candle Messages

A signal bar, two-bar or three-bar candle pattern can point you to high probability reversal points, but ....

A combination of these candles in the same area will give a stronger message of a reversal point.

By interpreting the meaning of all recent candles combined, the odds of successfully locating a reversal increase.
At (A), An expanding range breakdown is followed by an inside narrow range bar (Harami)

At (B) A retest of that “area” is followed by a Bottoming Tail (BT) and Potent + COG (Morning Star)

Strongly suggests a move higher

At (C), Narrowing Range Bars (NR) are followed by a gap down and move lower

At (D), a retest of the area is followed by a minor gap lower and Potent –COG suggests a move lower
Notice how momentum increases and decreases in a controlled manner.

The candles do not “run” higher building into a climatic + WRB.

This was a –WRB prior to completion?

Potent?
Candlestick Analysis

**Traders buy breakouts (BO).**
A return back to a BO point is negative.

**Traders sell break downs (BD).**
A return back to the BD point is negative.

This is Not how you want a BO to close

Potent three-bar combination!

Momentum Slows

NB

TT

-WRB

NBs

RE

-Momentum Slows

NB

-COG

-Momentum Slows

NB

-COG

Expanding range break down is followed by a very potent + COG
Candlestick Analysis

- As fear and greed increase, ranges expand
- As fear and greed decrease, ranges and/or bodies contract
- When and where this occurs is key

Range expands after contraction

Range expands after multiple bars in one direction

Range and bodies contract

Potent?
Candlestick Analysis

As you can see, it is possible to understand what candles are saying without knowing their various names and patterns.

Remembering candle pattern names does not equate to using them successfully, but there is so much focus on them.

If you remember the patterns, fine; but you now see there is a much easier, and better way.

The use of candles can not guarantee a successful trade, but this deeper understanding gives much greater odds of success.
At this point, you have a great start to using candles. Now, it’s up to you to work with the material and make it yours.

You should be able to analyze candle patterns objectively and make intelligent trading decisions.

Defining an opportunity, where the odds are in your favor, then having the discipline to follow your trading and money management rules is all that you can do.

In closing, we at Pristine wish you great success!