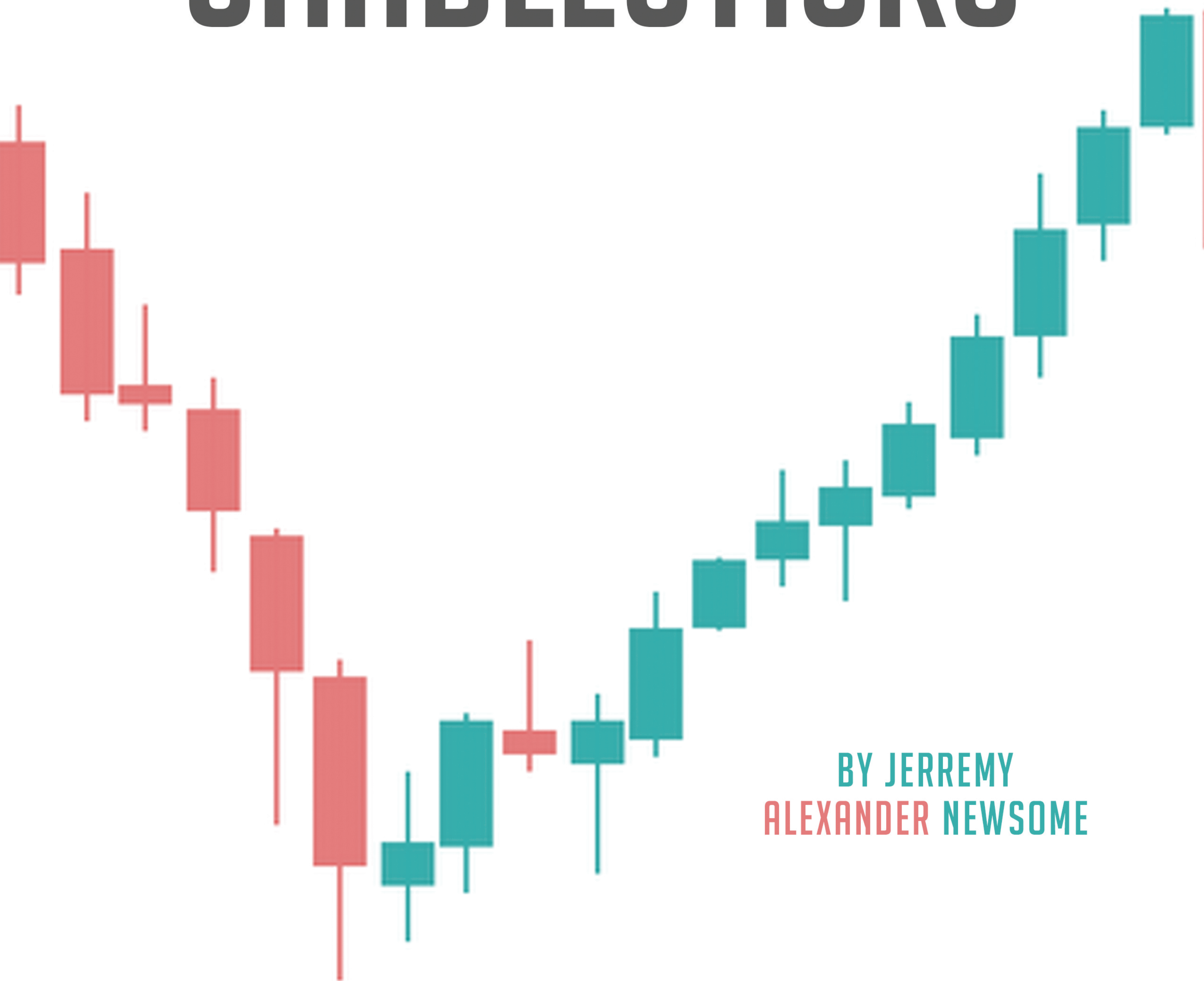
EVERYTHING YOU NEED
YOU NEED TO KNOW ABOUT

CANDLESTICKS



BY JERREMY
ALEXANDER NEWSOME

Hi Traders! I trust this article finds you well! I am sure many of you know my affinity for candlesticks and their importance as it relates to trading. A good saying to remember is, "The stock market rewards the specialist", with the flip side of that being, "the jack of all trades, master of none'" type of trader will often end up losing money.

In my opinion, candlestick analysis is geared more toward the active trader. I say active to differentiate these traders from the investor who buys two shares of AAPL (or another company) with every paycheck and continues to do so until their retirement. That's fine. Keep it up! However, if your eyes are on this article it's because you are searching for something. You are searching for information; information that can lead you to improve your portfolio and thusly bring in more monthly income for you and your family which can lead to a more fulfilled life.

I don't have to sell you on the stock market. You are obviously already interested in trading. What I am here to do is sell you on the importance of candlesticks, price action, sentiment, and trade management. And when I say "sell you" this article is obviously free and there aren't any actual sales pitches anywhere to be found. Enjoy the information!

First - I want to define a few key terms I will use.

Sentiment: The emotions, plans, or thought processes that lead up to the buying or selling of a security. I personally define sentiment this way.

Price action: The literal and numerical movement of a stock. The price of any object matters to humans. The larger the number, the more weight. When money is directly tied to price actions, humans usually care very much about the outcome of a move in price, either up or down.

Candlesticks are simply a visual representation of price action and sentiment. Keep in mind, sentiment is usually the 'feeling' behind the price action. Price action then would be the cause and sentiment is the effect.

The two colors I work with, regarding candlesticks, are white and black. I use white and black candlesticks for a couple of reasons.

• It saves on printer ink - if you ever need to print them out
• There aren't any subliminal triggers with white and black. Many traders use red and green candlesticks; red for down and green for up. Subliminally, red is bad and people are losing money, while up is good, and people are making money. In reality, both directions are great.

Any color you decide to use is fine. The color is not important. What is very important is the shape and the location.

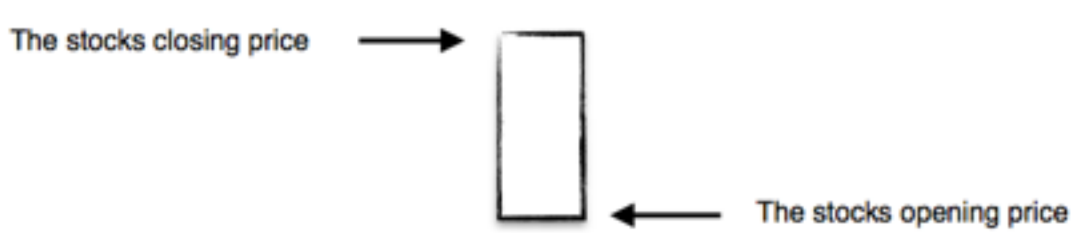
Let's focus on the basics!

The white candle

White candles are bullish candles. A white candle is created when the close of the candle is higher than the open. Therefore, anytime a stock closes higher than the open of the day, this will result in a bullish, or buying candle.

Below is a list of facts about white candles:

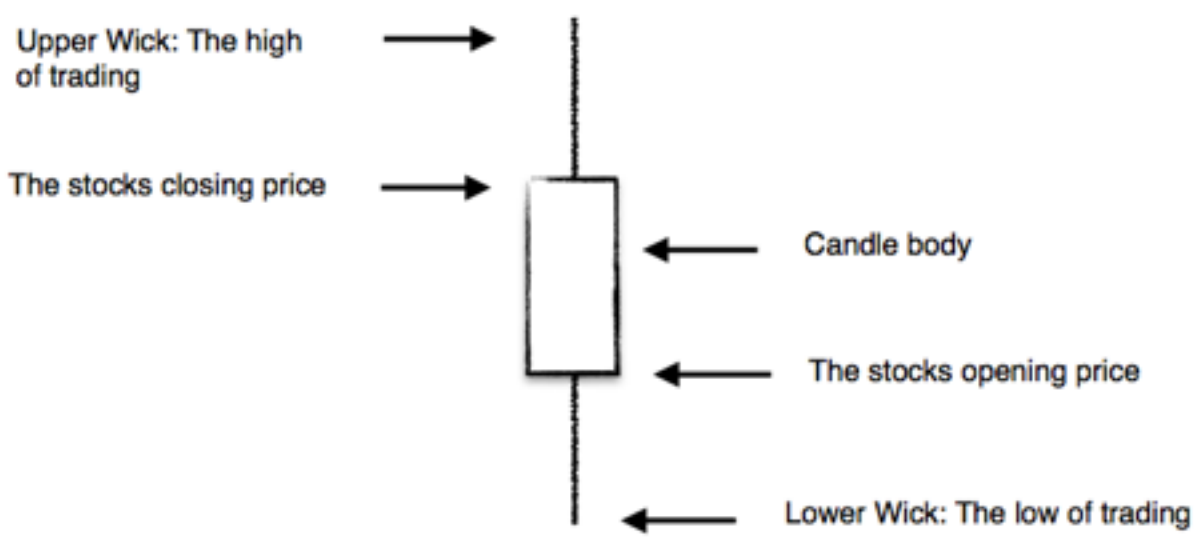
- A white candle is always a buying candle
- It is created because the stock closed higher than it opened
- The bigger the candle, the more buying that took place during the day
- The bottom of the candle body is the open
- The top of the candle body is the close
- These candles mean the most when found at a strong support price



I will reach and say 99% of the time, bullish candles do not look exactly like the one above and this is because there are four important price points of a stock's performance (AKA price action) throughout the day. The four important price points are:

- Open [This is 9:30 a.m. Eastern in the United States]
- Close [This is 4:00 p.m. Eastern in the United States]
- High [This happens at some point during the 9:30 a.m. - 4:00 p.m. trading day]
- Low [This happens at some point during the 9:30 a.m. - 4:00 p.m. trading day]

The high and low prices of the day are shown by what's known as a wick. (Yes, like a wick on a candle.)



Notice above, I have 'the high and the low of trading'. Why is that?

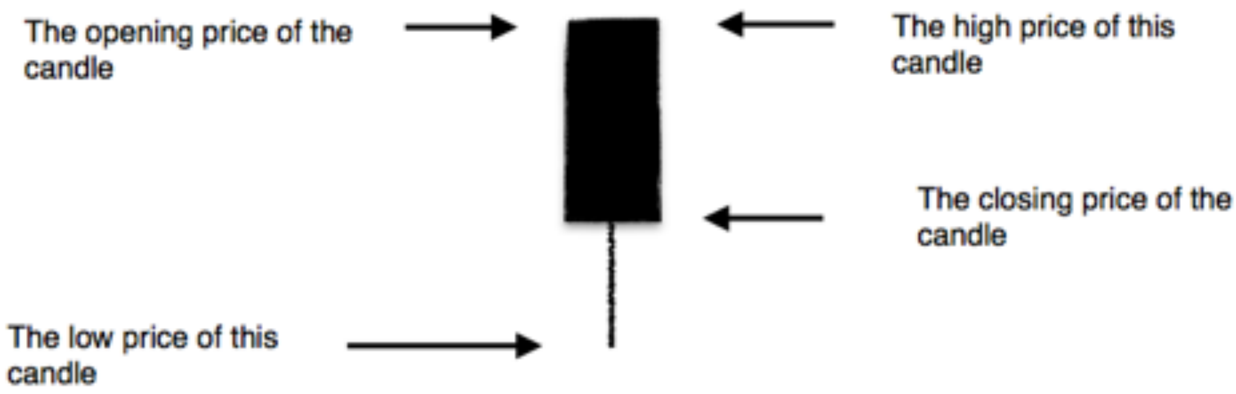
Well, because you can look at candles for any time frame. Meaning, you can look at a candle for each trading day, which is usually the most popular. Monday - Friday, five days in a trading week. Speaking of week, you can have weekly candles, literally showing the opening, high, low, and closing price of a particular stock for that trading week (five days).

Then, on smaller time frames, you have every type of candles from one minute to four hours. My super active day traders focus on smaller time frames.

Below is a list of facts about candle wicks:

- Wicks are also commonly referred to as shadows or tails
- Lower wicks always represent buying pressure
- The longer the lower wick, the stronger the buying pressure
- Upper wicks always represent selling pressure
- The longer the upper wick, the stronger the selling pressure
- Candles do not have to have wicks because the low of the day can be the same as the open and vice versa as the high of the day can be the close
- A white/bullish candle with no lower wick is called a shaved bottom. This is also indicative of strong buying pressure because the exact second (literally) the candle opened it got bought higher.
- A black/bearish candle with no upper wick is called a shaved top. This is also indicative of strong selling pressure because the exact second (literally) the candle opened it got sold lower.
- A candle with both long upper and lower wicks has intense buying and selling pressure. A move is coming… be patient.

The black candle



Below is a list of facts about black candles:

- A black candle is always a selling candle
- It is created because the stock closed lower than the open
- The bigger the candle, the more selling that took place during the day
- The bottom of the candle body is the close
- The top of the candle body is the open
- These candles mean the most when found at a strong resistance price

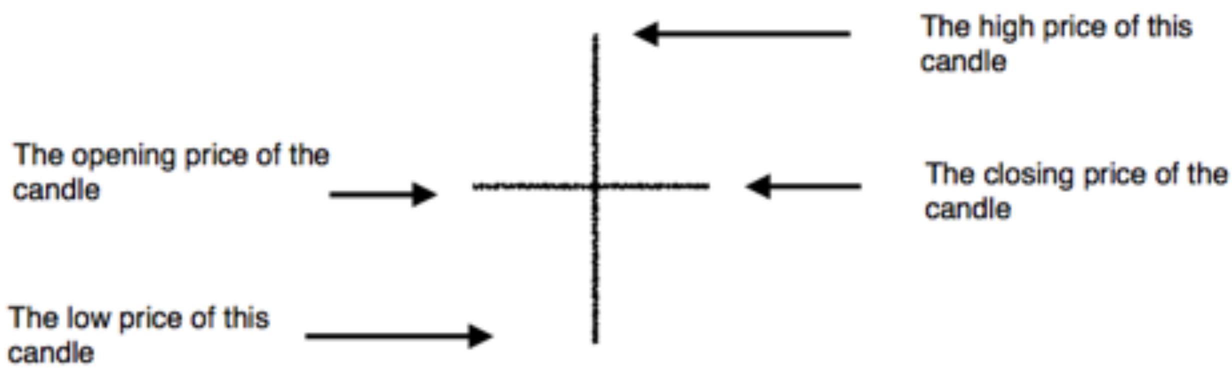
Based on what you've learned so far, let's do a pop quiz! {Answers start on the last 3 pages of this book}

1. True or False: The above candle is bearish? (T/F)
2. True or False: The above candle has selling pressure? (T/F)
3. True or False: The above candle also has some buying pressure? (T/F)
4. True or False: The above candle is a shaved top candle? (T/F)

I hope you got all four right. If you did, excellent! If you didn't, excellent! At least you took the test. If you have questions, please feel free to email me at jerremy@reallifetrading.com I'll be happy to assist. More questions to come!

A question that you might have at this point is, what if a candle has the same open and closing price? That is called a doji candle.

The Doji candle



Below is a list of facts about doji candles:

- These candles mean the most at support or resistance prices
- These candles generally precede a reversal/change in price, especially when found at an all time high or low
- The close and open do not have to be the exact penny to be considered a doji. As long as there isn't an actual candle body, I usually consider it a doji
- These candles show confusion and indecision among buyers and sellers. It's very similar to a husband and wife deciding where to go out and eat. At some point a decision will be made, but there's going to be a

discussion and maybe even a compromise.

These are really the three types of candles. The beautiful part about candles, trading, art, literature, music, and life in general is the wide array of variations we get. You have your basic components, your building blocks, your foundation, and everything else grows from that. My goal with this E-book is to show you many different variations to learn and help you understand the meanings behind what people are thinking. Remember, candlesticks are created from the changes in price action, and changes in price action create emotions within people. The change of price action in a stock can excite, scare, worry, frighten, concern, or elate traders. Why? Because in the stock market our money is tied to this price action, and money, most certainly, evokes some kind of emotion in most people. So, let's continue our visual journey with one of my favorite bullish candles and go over the sentiment.

The hammer candle

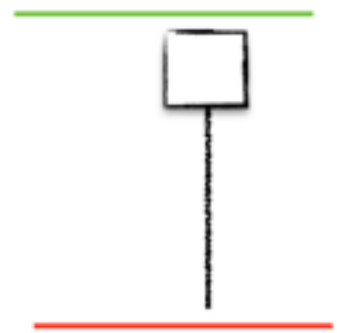
The hammer, by its nature, is a bullish candle. The best place to find a hammer candle is at support. To be called a hammer candle, the lower wick should be about two times the size of the candle body. This doesn't have to be an exact science. What is very important, though, is the size of the wick. The longer the lower wick, the stronger the buying pressure.
If a stock is trading lower and approaching a support price, moving average, or anything else of your choosing, the hammer shows buying pressure. It is a clear representation that at some point the stock was down quite a bit. Then the buyers picked up, creating a large lower wick, and drove the price higher, hammering home some profits!

Legend:
Entry during trading hours:

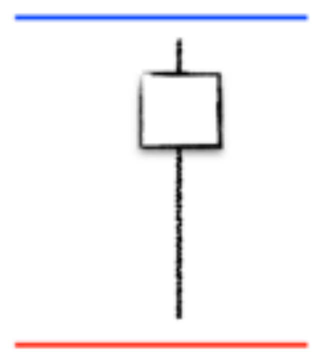
Wait for a close above this price:

Stop:

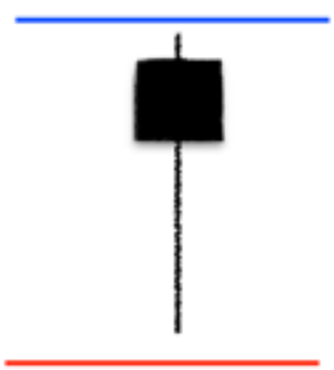
The text book hammer. Perfect in every way. Nice, long lower shadow. Small, perfectly square candle body. Shaved top. If found at a good support price or moving average of your choice, enter with a move higher.



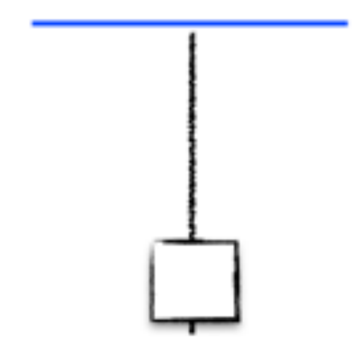
Still a good hammer. Nice, long lower shadow. Small, perfectly square candle body. However, it has an upper wick. The bigger the upper wick, the more selling pressure. These are the type of hammers I will wait for a close above the high before getting in bullish.



What I call the “hammer-ish’ candle. It still has the shape, design, and sentiment of a hammer. With one small change: the body is black. Therefore, it has buying pressure, but the candle is still bearish. More confirmation is needed before going bullish.



This is the inverted hammer candle (when found at support). This is a pretty decent reversal signal. The candle body shows that tons of bearish progress wasn’t made. The upper wick is obviously quite bearish. Usually, this is the second candle in a stronger pattern.

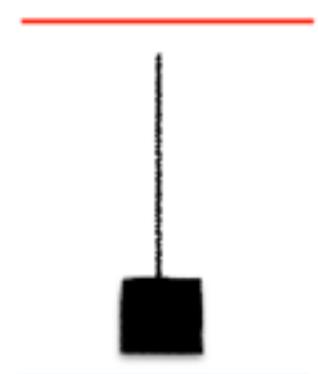


The shooting star candle

The shooting star candle is the exact same design as the inverted hammer candle, with one small but significant difference. The location. The inverted hammer candle should form at a support. The shooting star candle should form at a resistance. This candle shows at some point, the stock was up during the day. Then, someone hit the ***sell*** button and the stock began to sell off a bit.

Since the markets and economies in general are supposed to go up on daily and weekly candles, combined with the fact I am a bit of a perma-bull, I always wait for a close on shooting star candles to confirm a reversal. Now, when I say I am a perma-bull, understand I am fully able and equipped to trade any stock bearish. I love trading bearish. However, bearish markets do not last very long. At most, usually two to three years, and the rest are bullish markets. I simply say this to impress on you the idea that traders should be neutral. However, over the span of five years or longer, be a bull. Any down side action, simply focus on protecting yourself, mitigating risk and buying low - selling high.

The text book shooting star. Perfect in every way. Nice, long upper wick. Small, perfectly square candle body with a shaved bottom, showing the low and close of the day are the same. If found at a good resistance, enter with a close below the low.

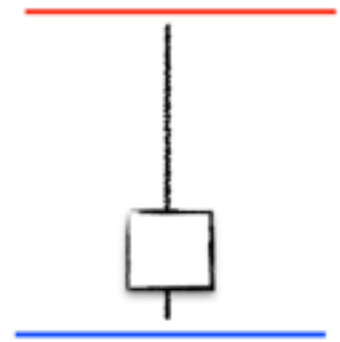


Pop Quiz:

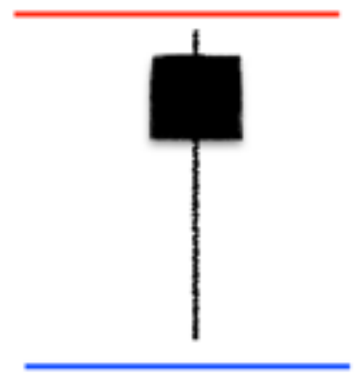
5. True or False: The stop should be placed above the wick on a shooting star candle? (T/F)

6. True or False: A shooting star candle can not have a lower wick? (T/F)

This is a good shooting star but notice the white body. It has a nice, long upper wick which shows selling pressure, but the white candle still shows some buying pressure. If found at a good resistance, enter with a close below the low.



This is what's known as a hang man. It has the exact same shape as a hammer. However, if it appears at a resistance, it is a weak reversal signal. The longer lower wick has buying pressure. If found at a good resistance, must wait for a close below the low.



Pop Quiz:
7. True or False: A white hang man candle is more bearish than a black hang man candle. (T/F)

The high wave candle

The high wave candle is specifically a type of doji. It really just means the candle has a huge upper and lower wick. This candle shows massive indecision between buyers and sellers. Usually, the next two or three trading sessions are very small and pathetic, but soon the stock will move strongly in one direction or another. On a daily chart, if this candle is found at a strong resistance, using my prior experience I would estimate an 80% chance of sideways or a bearish move, at least for a few weeks to months. Go check your charts on DDD 5/14/2013 and SLV on 4/28/2011 as great examples of these candles, for a bearish move afterwards.

If this candle is found at a strong support, there's a strong chance for a bounce. Probably about 78% or so (yes, a little bit lower than the bearish high wave doji). This is because high waves are usually found at resistance more than at supports. If strong buying indecision comes in, usually hammers shape up at support, or at least the lower wick is longer than the upper wick rather than a perfect high wave doji. Just my experience. In fact, off the top of my head as I'm writing this, I can't think of one of these as a bullish example.

The perfect, textbook high wave candle. Watch these candles closely, because if both wicks are long but the lower wick is longer, then it will still have a tad more buying pressure. When this candle shows up, wait for a close. Then, use the opposing high or low for the stop.

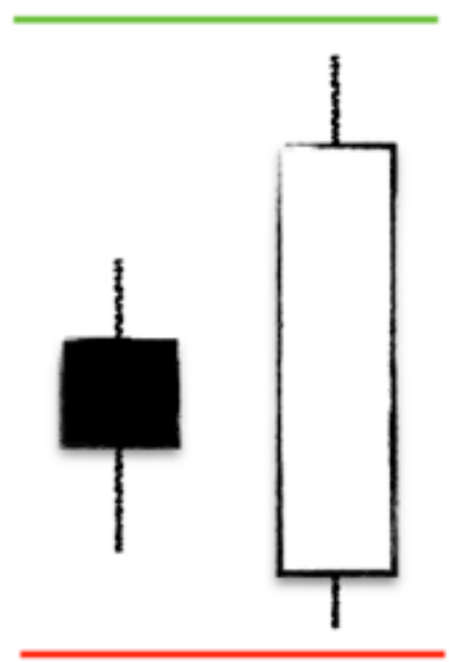
The interesting and semi obvious point is, no stock has just one candle. As traders, we combine multiple candles to really understand and interpret what people are thinking and feeling. Let's peer over the double candle stick patterns and discuss the sentiment and entries.

The bullish engulfing pattern.

The perfect bullish engulfing pattern. For this candle pattern to be textbook here are the must haves:

- The open of the second bullish candle must be below the low of the first candle
- The close of the second bullish candle must be above the high of the first candle
- The first candle should be black

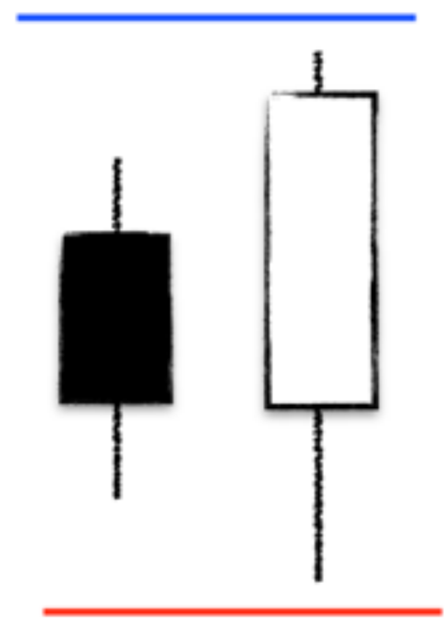
If this pattern is found at a good support and the pattern is textbook, aka perfect, enter with a move higher and place the stop below the low of the bullish candle.



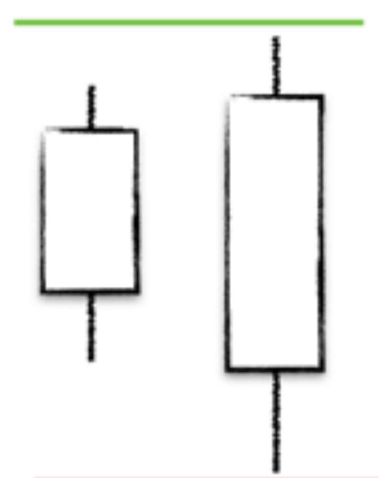
The most common bullish engulfing pattern usually has a few wicks or something making it not perfect.

- If the first candle is black/bearish and the second candle is white/bullish this is still a strong candle

- The second candle should be larger than the first candle.
  You might notice, the open of the bullish candle is higher than the low of the prior day. However, the black candle's range is still totally inside the second day's bullish candle.
  If this pattern is found at a good support, but not perfect, I will often times wait for a close before going directionally bullish (buying calls or buying the stock).



This is another type of bullish engulfing pattern. Many analyst don't see this as a very bullish pattern. I see this as a bullish pattern because it's back to back buying candles. Obviously, the more bullish candles, the better. If the second candle still engulfs the first candle, it's bullish.
The wicks are still a major concern, though. If either candle in this scenario has large upper wicks, I would wait for a close above those high prices. Otherwise, if the upper wicks are not large (like in this example) I would simply enter bullish with a move higher.



I also have another name for this candle pattern. More on that soon.

The bearish engulfing pattern.

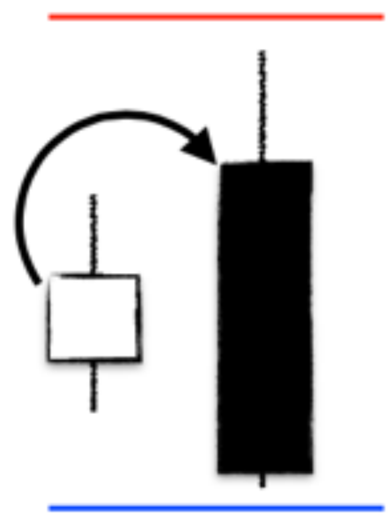
We just got done discussing the bullish engulfing pattern. This pattern is for the bearish trade and bearish sentiment. What this means is the selling pressure is quite strong, especially if the pattern occurs at a resistance.

The reasoning behind the 'why'on this pattern is quite simple. Let's check out a visual representation. Notice the pattern below. Say for arguments sake the white candle occurred on a Monday. Remember, the top of the white candle body is the close. What makes the sentiment bearish and filled with selling pressure is the open of Tuesday's market. The stock actually opens higher than any price that stock traded to on Monday. Therefore, anyone who bought the stock on Monday would be at a guaranteed profit Tuesday morning. You can see the stock even ran up a bit after the open. We can see this because of the upper wick, which shows the stock moved up higher at some point during the day. Well, come Tuesday at market close, this candle has erased all the gains of Monday and then some. Anyone who bought on Monday is now at a guaranteed loss. Think of what went through this trader's head. They bought, they were up a little Monday, up nicely Tuesday morning and then by the end of day, boom, they are losing on the position. It definitely took the wind out of their sails, so to speak. Then the self-talk "Man, I should have sold when I had a profit, why didn't I sell?" starts coming in and haunting their minds. Usually if that trader begins to see any more red in their account, they will exit. That's what makes the bearish engulfing patterns one of the stronger ones for sure.

The perfect bearish engulfing pattern. For this candle pattern to be text book here are the must haves:

- The open of the second bullish candle must be above the high of the first candle
- The close of the second bearish candle must be below the low of the first bullish candle
- The first candle should be white

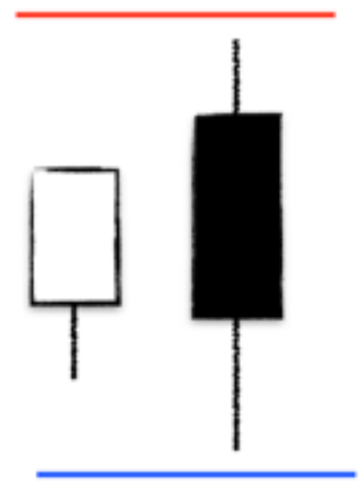
If this pattern is found at a good resistance and the pattern is text book, aka perfect, enter with a close below the low and place the stop above the high of the bearish candle.



The most common bearish engulfing pattern usually engulfs the body of the white candle, but does not close below the low of the white candle.

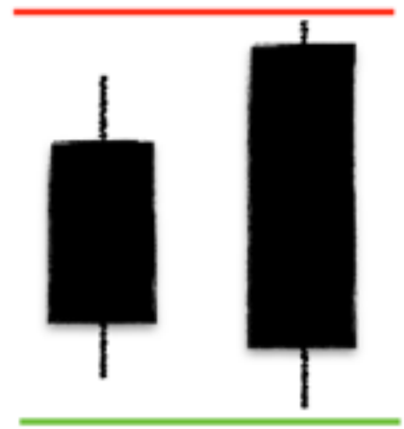
- If the first candle is white/bullish and the second candle is black/bearish this is still a strong candle pattern
- The second candle should be larger than the first candle

If this pattern is found at a good resistance I will wait for a close before the low of the black candle going bearish or neutrally bearish (buying puts, bear call spread, getting into a collar, or just shorting the stock).



This is another type of bearish engulfing pattern. Many analysts don't see this as a very bearish pattern, but I do because its back to back selling candles. Obviously, the more bearish candles that form, the more selling pressure that's building, the better. If the second candle still engulfs the first candle, it's even more bearish.

The wicks are still a major concern though. If either candle in this scenario has large lower wicks, I would wait for a close below those high prices. Otherwise, if the lower wicks are not large (like in this example) I would simply enter bearish with a move lower.



I have another name for this pattern but more on that soon.

The dark cloud cover pattern.

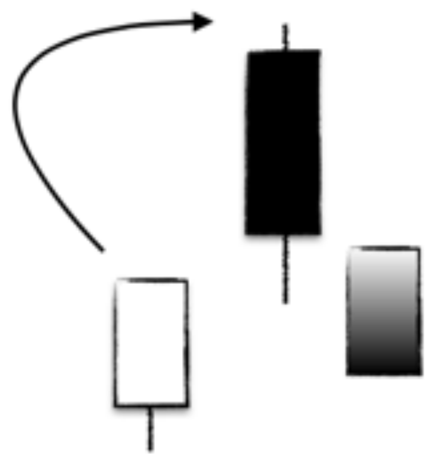
This pattern is interesting. Imagine a situation similar to the bearish engulfing pattern but the stock gaps a little further at the open on the second day.

For this pattern to occur perfectly, the first day bullish candle has to be nice and bullish. Usually a bullish candle with a shaved top will create the dark cloud cover.

The reason the sell off after the open occurs is because traders were so bullish the prior day and it gapped up so nicely, that anyone who bought the prior day is profitable. Since the gap is a nice and unexpected profit, many traders will sell their position and take their profit.

This is a profit taking gap, or what I call a 'retest gap'. In this scenario, I fully expect the black candle to form. However, I am truly in a 50/50 position regarding my future plan on how to trade this candle pattern. It will depend on the 3rd day. If another black candle appears on the 3rd day, that's bearish. However, if the stock gaps down a tad on the 3rd day and then it forms a bullish candle, it would be more bullish.

Since the 3rd candle is most important, I wait on it to form. If it's bullish, I'll look to go bullish on this trade. If it's a bearish candle, I'll look to go bearish.

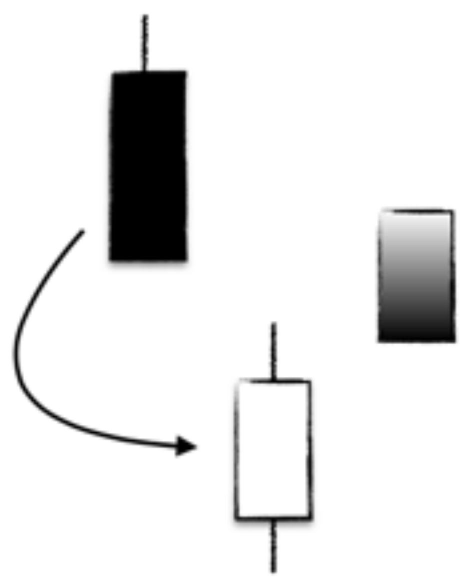


The bullish counter attack pattern.

For this pattern to occur perfectly, the first day bearish candle has to be nice and bearish. Usually shaved bottom black candle, then a gap down to a support will create the bullish counter attack.

The reason the buying begins to occur is due to traders who were bearish the prior day and then the stock gapped down nicely, making any trader who was short the prior day profitable. How do profitable bearish traders exit their positions? They buy to close, which causes the stock to trade higher from the open.

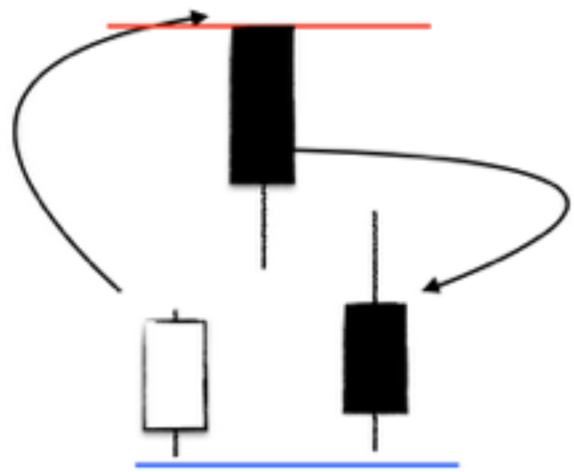
This is also a profit taking gap, or what I call a 'retest gap'. In this scenario I do expect a white candle to form at least at some point during the day. After the candle forms, I am back to being in a totally neutral position regarding my future plan on how to trade this candle pattern. It will depend on the 3rd day. If another black candle appears on the 3rd day, that's bearish. However, if the stock gaps down a tad on the 3rd day and then it forms a bullish candle, I would be more bullish.



The ‘star reversal’ patterns

These are some of my favorite patterns for really any time frame. Either day trading or longer term trading, these candlestick patterns are pretty frequent. The pattens usually spring from either the dark cloud cover or bullish counter attack. Let’s take a look at one.

The evening star reversal pattern.

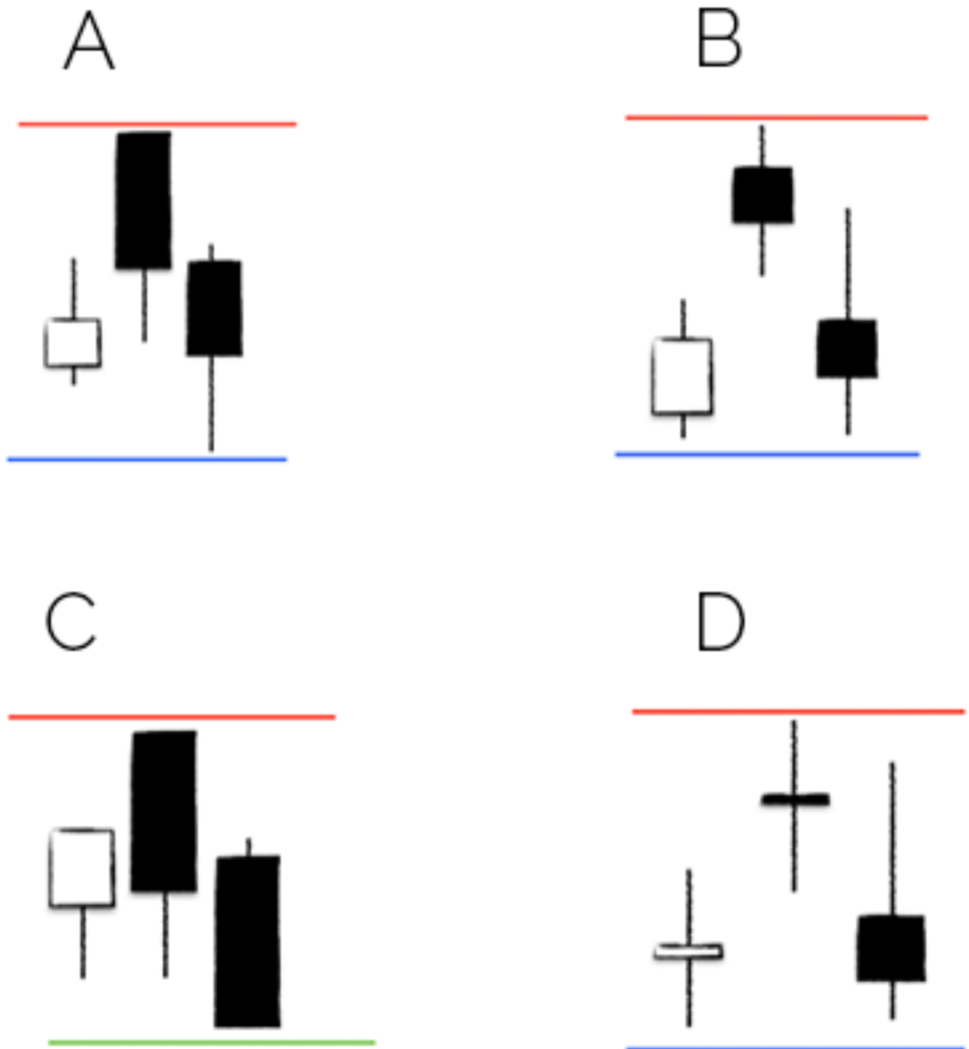


For this pattern to occur perfectly, the first day candle should be white followed by 2 black candles. If all candles are black, it’s still a strong reversal for sure but this is the textbook version.

The second day should gap up and a black candle should form. This again is from profit taking. The kicker is what happens the third day. If the stock gaps down again and trades down, forming a black candle, this is your perfect evening star reversal pattern.

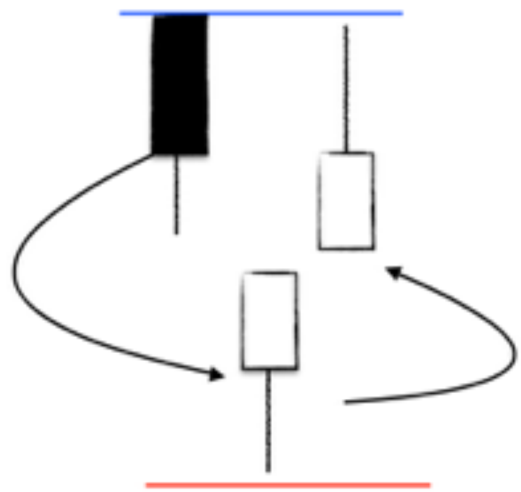
The most important lesson to learn on entering with this pattern is understanding the white bullish candle. If the 3rd candle closes below the low of the white candle, this is an intensely strong evening star reversal. At that point, if the 4th day breaks the low of the 3rd day, enter bearish. In the above example, the 3rd day black candle does not close below the low of the white candle. Therefore, a trader would find it most conducive to wait for a close below both the lows and a stop would be placed above the high of the 2nd candle. IF this pattern forms at an all time high, it’s a decent reversal pattern usually followed by some sideways trading. If this pattern occurs at a confirmed resistance, it’s a very strong pattern. One of the strongest out there.

Below are a few more variations of the evening star reversal pattern and where to enter and place stop with a pop quiz question attached. *8. Which evening star pattern is strongest? (Most bearish?)*



The morning star reversal pattern.

Morning star patterns are bullish reversal patterns and I love when these patterns form in a good trend. If a stock is bullish and has a nice healthy pullback or retracement down to the 50 exponential moving average, 100 simple moving average, or 200 simple moving average, it's very easy to play the bounce with these little guys.

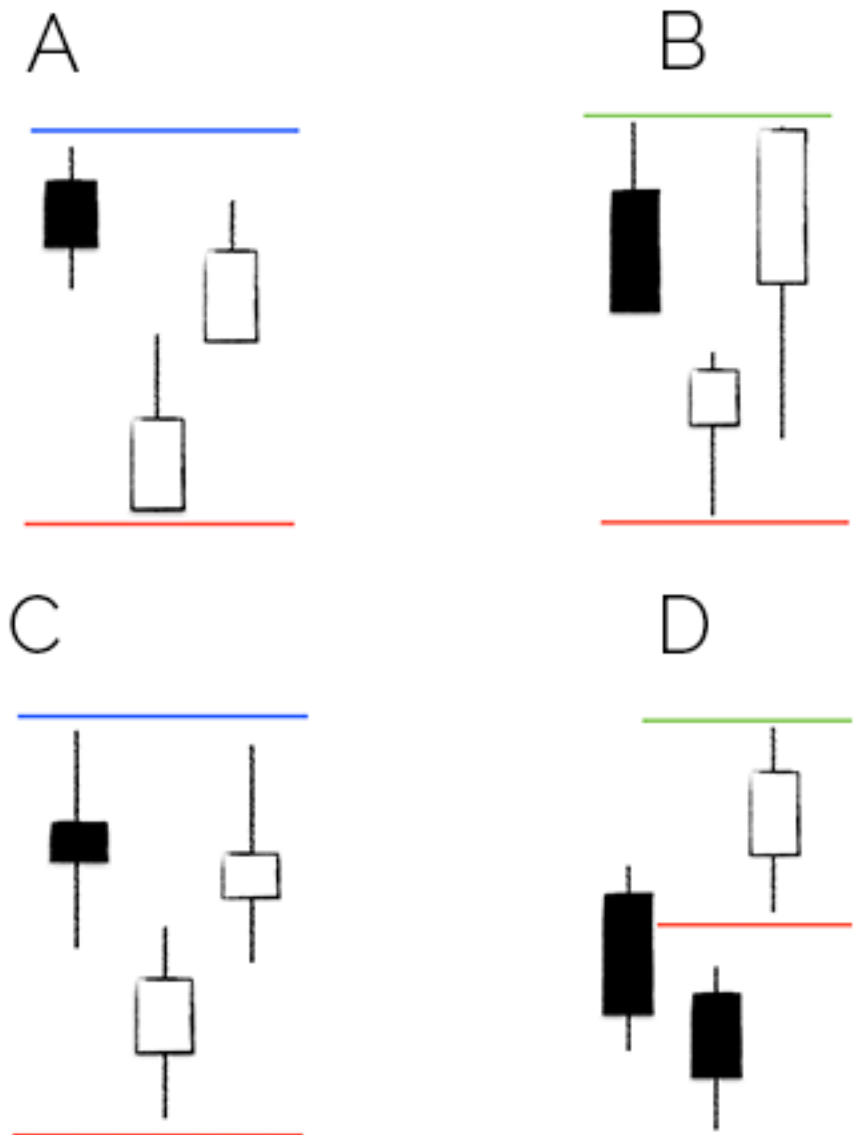


For this pattern to occur perfectly, the first day candle should be black followed by 2 white candles. If all candles are white, it's still a strong reversal for sure but this is the textbook version.

In this example, the second day candle by itself is just a hammer. If you take the first and second candle together, that's a bullish counter attack. When you add the third candle, it completes the morning star reversal. Notice the third candle did not close above the high of the black candle. That and the 3rd candle has an upper shadow revealing selling pressure. Therefore, it would be prudent to wait for a close above this pattern before going bullish.

Sometimes, it can take days or maybe even weeks before this pattern triggers. If it triggers on the fourth day, great. The longer it takes to trigger, the more likely I will change my trigger from needing a close above the highs to simply going bullish with an intraday move higher. This pattern is good for longer term bullish trades set ups and also neutrally bullish trades like put sales or bull put spreads.

#9 Rank these morning star patterns from most bullish to least bullish.



Thus far, I've discussed with you some of the most powerful candlestick reversal patterns. Truly, opportunities abound if a trader focused solely on the candlestick patterns outlined above. The following patterns are a little special to me, though. I'll get more into that soon, but what I will say is this: The below patterns are incredibly strong and without question, my favorite ones to watch for and set up trades with.

The one white solider pattern.

Let's discuss together the sentiment of this pattern. On the first day a black candle will appear. On the second day a white candle will appear. What makes this a one white solider pattern is threefold. According to most textbooks, or websites, both candles have to be:

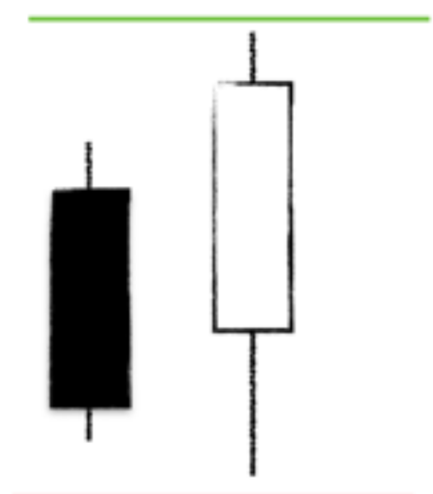
1. Long day candles (meaning they are simply bigger than most candles)

2. The open of the white candle has to be above the close of the first day.

3. The close of the white candle has to be above the open of the first day.

If those things occur, this is a very strong one white solider pattern. Why is it strong? Imagine if you went bearish on a stock. Then immediately, at the open of the next trading day, you are losing money. It can be a defeating feeling for many, like you're immediately wrong, and it's because you are wrong.

That's *going to happen. A lot in fact. It stresses many traders out but, it shouldn't. It's a fact and a guarantee in trading. That's like getting stressed out that it's going to rain. You know at some point it will happen.*



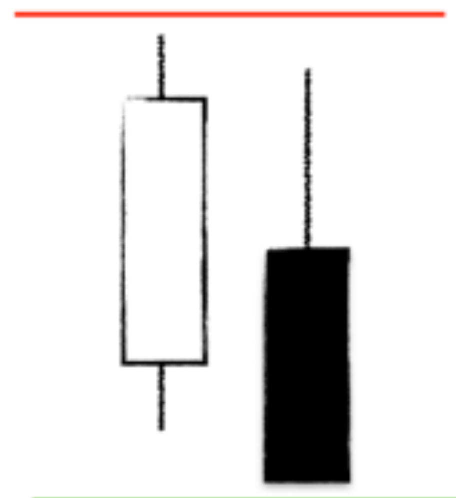
The one black crow

Let's discuss together the sentiment of this pattern. On the first day a big bullish candle will appear. On the second day a big bearish candle will appear. What makes this a one black crow pattern is threefold. According to most textbooks, or websites, both candles have to be:

1. Long day candles (meaning they are simply bigger than most candles)

2. The open of the black candle has to be below the close of the first day.

3. The close of the bearish candle has to be below the open of the first day.



If those things occur, this is a very strong one black crow pattern. Why is it strong? Imagine if you bought the stock on the first day. Everyone and anyone who bought on day one is losing money on day two and that can be scary! People immediately begin to fear the loss of money. When this pattern occurs at a strong (confirmed resistance) it's a very strong reversal signal.

Let’s cover a few more items on this pattern. In the one white solider, the bullish sentiment is even stronger if the candle closes above the high of the bearish candle. This would mean that anyone who went bearish on the first day is losing money, likely afraid and looking to exit. The same is true with the one black crow. If the black crow candle closes below the low of the bullish candle, everyone who bought the prior day is losing money, likely afraid and looking to exit.

Below are two charts depicting many of the patterns we’ve discussed so far.

You can see AAPL likes its morning star reversal patterns. In this chart below, I want to point out and describe some very interesting candles you might have noticed. You can see the morning star reversal patterns. However, the candles I'm pointing to in red (or maroon) are very unique. Why? Because they act a lot like one white soldier patterns, but do not meet one very specific requirement. They are not long day candles. So, what should they be called?

I asked myself the same question a few years back and did a lot of research and probing to find out why these patterns worked and what they might be called. Here's what I discovered:

They look like small one white solider candle patterns, but they do not JUST have to occur at support in order to work, which is another requirement of one white soldier candles. I'll peek at the above chart one more time and bring these bad boys to life!

Below is the same chart as above. Notice the candle with the red arrow. This is the candle that occurs on 10/22/2014. What do you notice about it? Well, it has an upper shadow, which reveals selling pressure. This is very true. That's why I waited for a close above the high of that candle before going bullish. What else do you notice? I'll give you the answer…

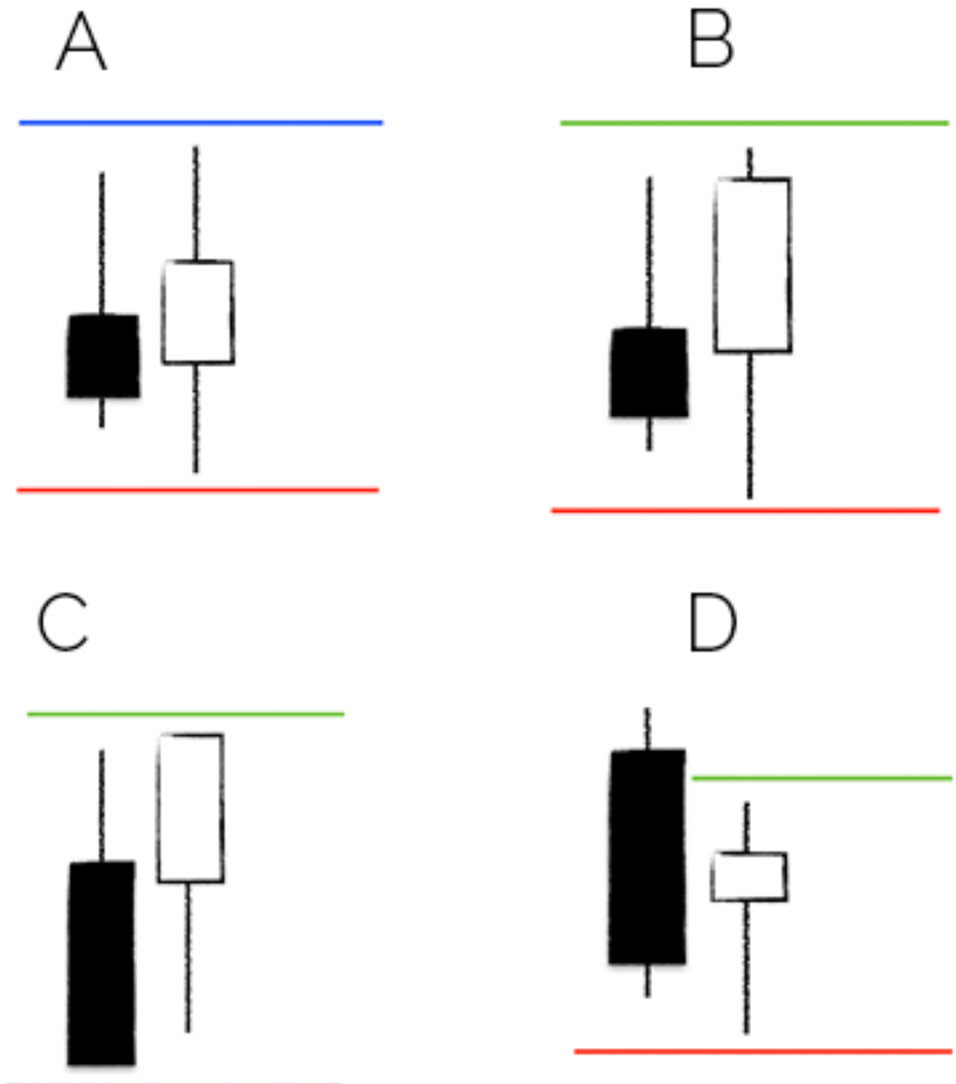
It's a white candle that opened and closed above the prior day's black candle close. As simple as it sounds, that's really all of the requirements for this pattern, and my students have interestingly dubbed it:

The new white soldier

As you may already know, my last name is Newsome, making this kind of a play on words. My students are very creative! Let's get a zoomed in version of what this candle pattern can look like, because it's really quite simple.

The super fun thing about new white solider patterns is the huge variety and frequency in which they show up! From my own personal trading experience, they do work quite well. The must haves:
• 1st day black candle
• 2nd day white candle (that opens and closes above the prior day's close)
Boom. We're done! I will create a few examples and you get to find out which one I would deem the strongest!

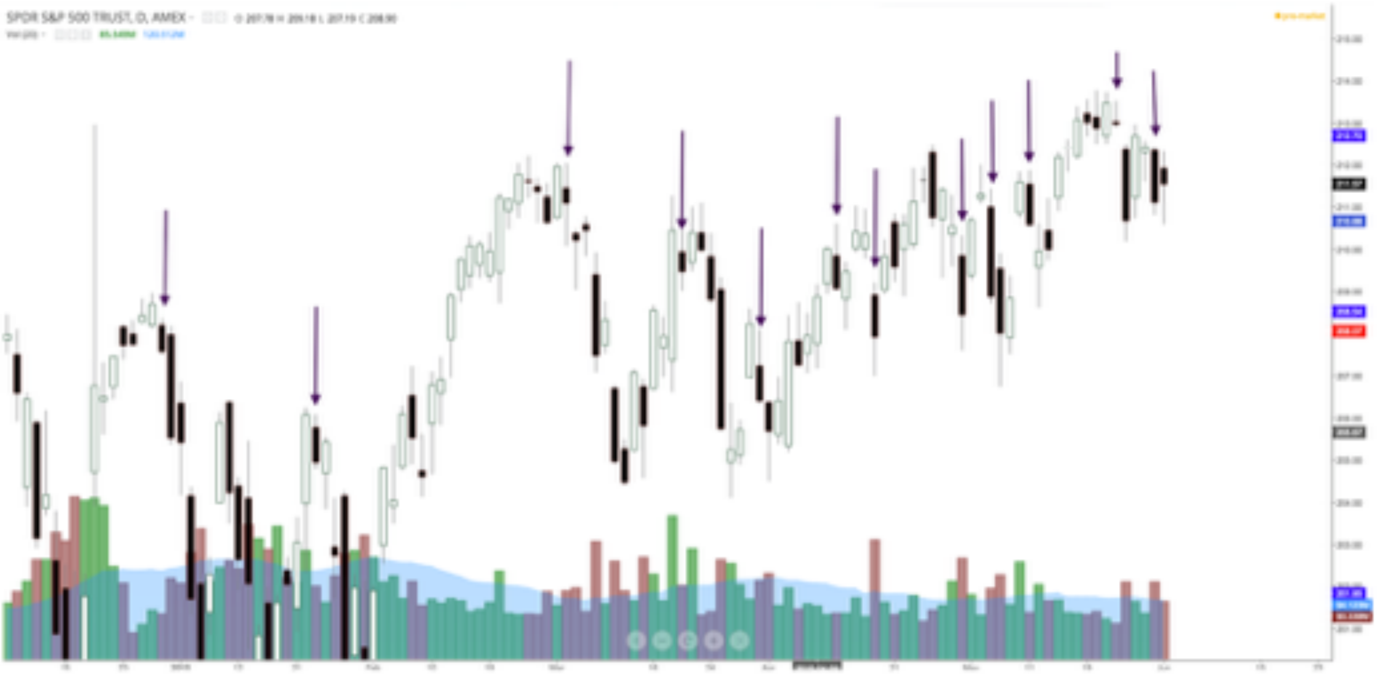
10. Which new white soldier pattern is the strongest?



New black crow

Since you're so amazing you might have wondered, "Well, do these patterns happen on bearish moves too?" The answer? Yep! They sure do. They have been dubbed new black crows.

Below is a zoomed in chart of the SPY. Each candle with an arrow I would technically consider a new black crow.



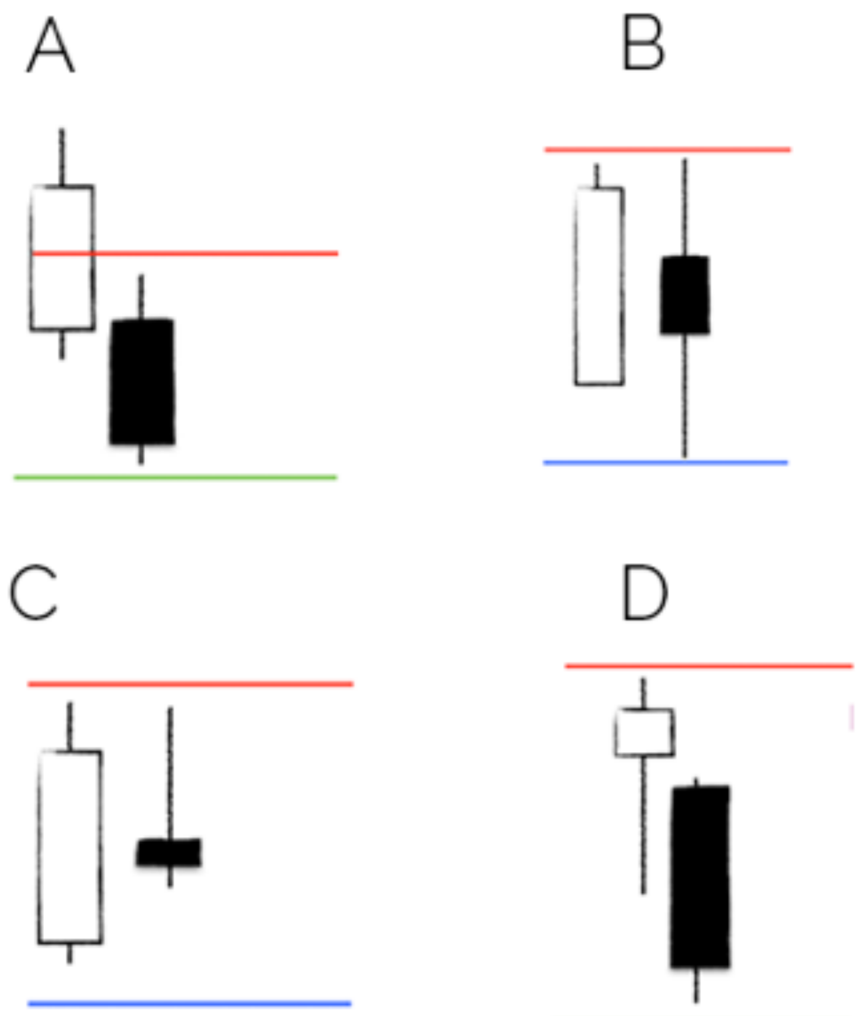
Simply put, both of these patterns are common. These are the must haves for a new black crow:

- **1st day white candle**
- **2nd day black candle (that opens and closes below the prior day's close)**

Some tips on the new white soldier and the new black crow: These are not necessarily signals to just go all in bullish or all in bearish. Like anything else, you have to ask yourself, "Is this pattern at a good resistance or support? What's my strategy and therefore my risk?" Any amazing real life trader will plan a trade days or hours ahead and create what they *want* the stock to do. If your specific stock is at a resistance and you create a plan that says, "If a one black crow or a new black crow appears I will enter puts when it triggers, or buy a protective put, or do a bear call spread - whatever it is, but at least you've created a plan! Now, just follow it!

With a new white soldier or new black crow, if I'm looking to trade the follow through I like and expect them to trigger in three days. If the stock doesn't continue in my desired direction in three days, I'll usually pass and leave it alone. Below are some exact recreations of the new black crows in the above SPY example and where to enter and place a stop.

11. Which is the strongest?
12. True or False: A one black crow can always be classified or be called a new black crow, but not all new black crows can classify or be called a text book one black crow.
13. True or False: A one white soldier can never be classified or be called a new white soldier, but not all new white soldiers can classify or be called a text book one white solider.



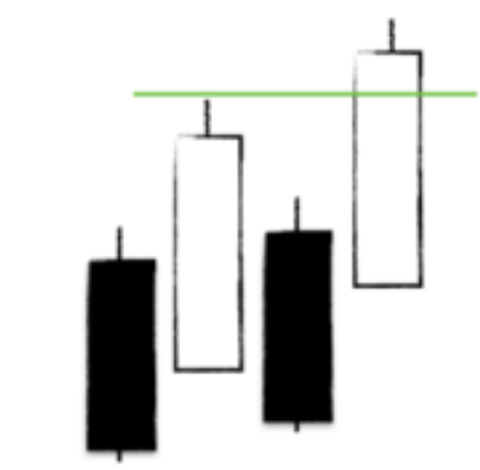
To make this really fun, I'm going to quickly introduce a semi rare, but powerful candlestick pattern that incorporates the sentiment of the one white soldiers, one black crows and / or the new white soldiers / new black crows (abbreviated OWS, OBC, NWS, NBC) respectively.

Battalion of Soldiers

This candlestick pattern is also brought to you by some incredible minds. You won't find this name anywhere else. It's been coined by some amazing Real Life Traders. Anyway, let me briefly explain.

In a Battalion of Soldiers (abbreviated BOS) you have a OWS followed by a OBC. Then on the 4th day of this pattern, you have another OWS that triggers the first OWS candle pattern.
This also works with new white soldiers and crows. You would have a NWS followed by a NBC. Then on the 4th day of this pattern, you have another NWS that triggers the first NWS candle pattern. What I love about this pattern is presumably one would already have had a bullish trigger set. Then on the forth day (2 days after the first OWS or NWS) your trade would get triggered)

Triggered in bullish



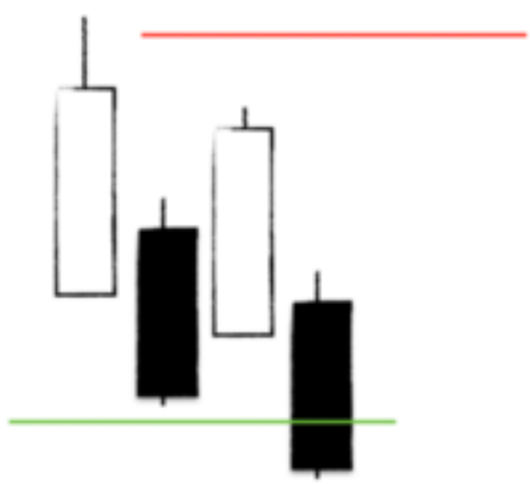
Murder of Crows

Yep. You guessed it. Another ingenious name brought to you by the epic students and traders at Real Life Trading. This is a volatile and obviously bearish candlestick pattern. In it's simplest form it's just two one black crow candle patterns back to back.

In a Murder of Crows (abbreviated MOC) you have a OBC followed by a OWS. Then on the 4th day of this pattern, you have another OBC that triggers the first OBC candle pattern.

This also works with new white soldiers and crows. You would have a NBC followed by a NWS. Then on the 4th day of this pattern, you have another NBC that triggers the first NBC candle pattern. What I love about this pattern is presumably one would already have had a bearish trigger set for the original one black crow pattern. Then on the forth day your trade would get triggered.

Triggered in bearish

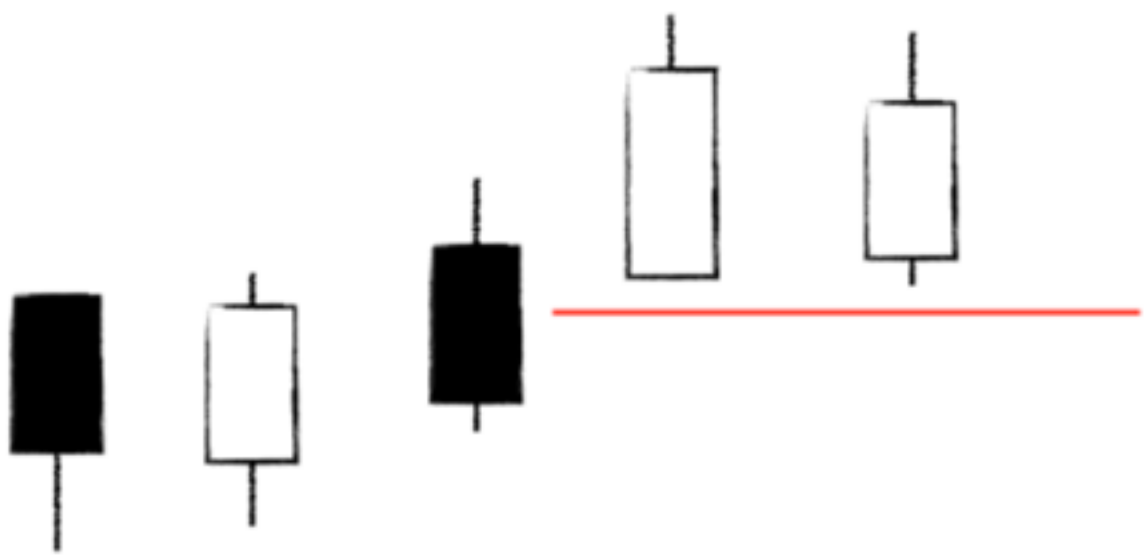


Bullish wicked pair candles

You got it. Another interesting name created from the laboratory of minds that is Real Life Trading as a community and family. We obviously did not create the candle pattern. It's been around **a long** time. However, we simply began to dissect the emotion behind the pattern.

These pattens often shape up in a trend when people *fear* of a reversal but at the end of the day, they are relived as the trade has regained its momentum. How about we give a visual representation.

Enter bullish with a move higher



The above pattern is unique because of it's impact on traders in the morning. In the above candlesticks, the 4th candle is a NWS. On the 5th day, the stock gaps down. Notice it does not open below the low of the prior day. This is important. The open of the 2nd candle in this pattern *must* be between the prior candles high or low. The sentiment, initially, is fear. The 4th day in the above example, traders are happy, the stock is progressing higher, people are making money. Then, in the morning on the 5th trading candle, the open is far below the close. People are scared, but do not fully panic. Then the buyers step in, rally the stock and it ends with a white candle.

The must haves:

- Both candles must be white
- The second candle must open *below* the close of the 1st day

Here are the maybes:

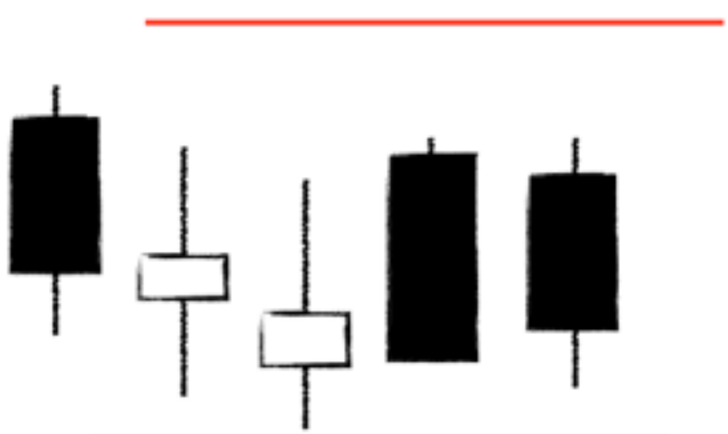
- Both candles are usually smaller, but work well if they are both long day candles too
- This pattern can occur at a support or in a trend or with a bounce off the moving average
- Usually, the second candles open will be above the low of the 1st white candle
- If the open of the 2nd day's candle is below the low of the 1st white candle, the second candle needs to be larger than the first. Kind of like a bullish engulfing pattern...

Below are some Real Life example on LNKD. Remember, once the candles form, you could enter bullish with a move higher and place your stop below recent support.

Bearish wicked pair candles

These bearish candlestick patterns have very similar sentient and emotions for the bearish traders. Some people have a harder time understanding bearish or black candles because they have never traded a stock bearish. I agree, it does take some practice. Simply remember, up is good. Down is good. Movement is good!

In the bearish wicked pair, the bearish traders get scared or concerned about a bullish gap up. However, by the end of the day the selling has resumed and we're left with a nice potential continuation downward.



In the above candles, the first candle is bearish. Then you have two white candles which one could say "Oh, this is beginning to form a morning star reversal possibly". And I agree! Even with the 4th candle, which is black, if this pattern occurred at a support and then the 5th candle closed bullish above the 4th bearish candle, I would take that as a bullish morning star confirmation. However, the candle gapped up, ending up trading down that day and ended bearish. If this patten occurred in a bearish trend or at a resistance I would wait for a lower low, with a close below the pattern. This is because of the potential morning star pattern that obviously is enticing someone to buy at that price.

The must haves:
• Both candles must be black / bearish.
• The second candle must open *above* the close of the 1st day Here are the maybes:

• Both candles are usually smaller, but work well if they are both long day candles too
• Usually, the second candles open will be below the high of the 1st bearish candle
• If the open of the 2nd day's candle is above the high of the 1st black candle, the second candle needs to be larger than the first. Kind of like a bearish engulfing pattern...

Well traders, I could easily make this E-book even longer. There are truly countless candle patterns, set-ups, strategies, and opportunities. Your main focus should be creating a trading plan based on a few simple candlestick patterns and becoming a master. The market rewards the specialist! That's why I've outlined above some very strong candle patterns that really could be used by themselves to recognize trading opportunities, entries, and exits.

If you ever have any questions, please understand I am really not *that* busy. I am happy to lend my time and expertise to enrich and educate. My email address is jerremy@reallifetrading.com

I hope you found this beneficial. I would love it if you shared it on social media and with your fellow traders. Let's all help each other conquer this battlefield of risk mitigation and discipline and work consistently towards becoming the best Real Life Trader we can be!

Until next time, remember. Love life, live life, and trade it!

Answers to questions:

1. True

2. True. All bearish candles having selling pressure. We can tell this because the stock
closed lower than it opened.

3. True. Therefore, this is still considered a bearish, black candle with selling pressure,
even though there obviously is some buying pressure as well. We then come to the conclusion that the sentiment is more bearish than bullish, but some buying pressure is begging to pick up.

4. True. This is a black candle, where the open and the high are the exact same (no upper wick). Therefore, it is a shaved top candle.

5. True.

6. False

7. False (Black candles are always more bearish than white candles, regardless of the
type of candle).

8. C - this is the correct answer because the 3rd candle closed below the low of the white candle and the 3rd candle had a shaved bottom. Ok to

simply enter with an intra-day move lower on the 4th day.

9. I'll give you credit - this one was tough even for me and I made the quiz. HAHA! But I did it this way intentionally. I would personally rank them D, B, A, C. But A and C really are pretty much a tie. It's the difference between D and B I hope you were able to notice. Let me explain. I will start with B. The third candle on the B pattern is obviously quite bullish. Nice long lower shadow, huge white candle body and almost a perfect shaved top. You can almost feel the bullish pressure based on the size of that bullish candle. Therefore, one could simply enter bullish intraday with a move higher. However, the D pattern. What might have thrown you for a loop is the two black candles. And I agree, that aspect the pattern is pretty bearish. What totally changes the strength of this pattern is the gap for the 3rd candle. If the 2nd candle is white and the 3rd candle opens above the high of the 2nd black candle, that's a strong pattern by itself. However, this candle actually opened above the high of the first bearish candle. What does that mean? Well, it means any trader who got in bearish on either the first day or the second day is trapped. Since both bearish candles are created from trading selling short, they enter the trades by selling to open. Their stops are probably above the high of the pattern and when the stock gaps up they are scared of losing money and immediately buy to close their position. With this candle pattern, the stop could actually be placed below the low of the 3rd white candle (in the gap). The trigger is simply a move higher on the 4th day. This is a candle pattern which is called a one white soldier.

10. Did you guess C? Alright! Let me answer the 'why'. Because the black candle had a shaved bottom (meaning a lot of people were selling on day one). Then the next day, a giant open higher, trapping the bearish traders who are now forced to buy to close and the white bullish candle ended with a shaved top. I would say B is the second strongest followed by D then A. D is decent, but it does depend on the prior candles too.

11. **I am going with A as the strongest on this one. Nice sized white candle, fully taken out by the open of the next day. Every since person who bought on day one is losing money right at the open on day two. Those are always nice gaps.**

12. **True**

13. **False. On both 12 and 13 remember, ALL one white soldier's and one black crows**
    could also be called new white soldiers or new black crows. However, NWS and NBC do not have to be long day candles.

Other Helpful Pages and Videos:

<u>For an awesome Candlestick Cheat Sheet click here!</u>

<u>Here is a quick read on trading tweezer bottoms.</u>

<u>For you visual learners, here is a video on Candlestick Analysis!</u>

<u>If you are curious what our top 6 candlestick patterns are, watch this!</u>