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Forex candlestick patterns strategy pdf

Japanese candlestick charts (or simply candlestick charts) offer traders a greater depth of information than traditional bar charts. They provide different visual cues that make understanding price action easier and allow traders to spot Forex patterns more clearly. In this article, we will tell you everything you need to know about candlesticks, list some common Forex candlestick patterns that you should look out for when trading, provide an example of a trading strategy which utilises these patterns and much more! Candlesticks Explained In the picture above, we can see two examples of candlesticks. The 'body' comprises the difference between the opening and closing price and the lines either side (nose and tail) represent the highest and lowest prices of the time period. Generally speaking if the candle body is black, as shown above, or red the closing price is lower than the opening price - this is referred to as a bear candle. On the other hand, a white or a green body indicates that the closing price is higher than the opening price - this is referred to as a bull candle. A price closing where it opened, or very close to where it opened, is called a Doji. Memorising Japanese candlestick names and descriptions of candlestick trading formations is not a prerequisite for successful trading. Nevertheless, it is helpful for price action traders. By looking at candlesticks, traders can see momentum, direction, now-moment buyers or sellers, and general market bias. Depicted: Admiral Markets MetaTrader 5 - GBPUSD Daily Chart. Date Range: 2 April 2020 - 26 October 2020. Date Captured: 26 October 2020. Past performance is not necessarily an indication of future performance. How to Measure the Length of a Candle The high of a Forex candlestick acts as a resistance, while the low acts as a support. The bigger the candle, the stronger the levels of support and resistance are (especially with the Master Candle pattern – which we will cover later in the article). Depicted: Admiral Markets MetaTrader 5 - GBPUSD H4 Chart. Date Range: 9 September 2020 - 22 September 2020. Date Captured: 26 October 2020. Past performance is not necessarily an indication of future performance. The window to the left of the picture above is the data window, which can be brought up in your MetaTrader platform by pressing Control + D. It shows you crucial candlestick data you need to know, including the high and low, as well as the open and close price. Three Main Components of Candlestick Charts Size/length of the whole candle Correlation between open and close Shadows and correlation to the body of the candle Size/Length of the Whole Candle Candles that open at the low, close at the high or candles that are extremely long are a common occurrence. If there is a long downtrend, such a candle indicates a major trend reversal is occurring. On the contrary, after a long uptrend, if an unusually long candle closes, that would show a long wick to the upside, or a strong bearish body right from the top, then we are talking about exhaustion or a 'blow off-top condition'. In the example below, the reversal candles are highlighted in blue: Depicted: Admiral Markets MetaTrader 5 - GBPUSD H4 Chart. Date Range: 23 September 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Correlation Between the Open and the Close In bullish market conditions, or during a strong uptrend, buying will usually occur on the open. The price should rise, and a hollow, white candle is formed. As the bulls control the price action in the market, the length, or the distance between the open and the close reflects their dominance. In bearish market conditions, or during a strong downtrend, a dark body candle should form. This represents sellers entering the market on the open, and dominating that particular time. Candlestick charts allow for great analyses from the shape and colour of the body of the candle, in comparison with bar charts. Shadows and Correlation to the Body of the Candle The length of the wick represents the price low and/or high, when comparing with the open and close prices shown in the real body of the candle, which can also illustrate the market's denial of a support or a resistance level. If we see long tails, or shadows, formed at the bottom of the body, an important factor to consider is whether they form after a long downtrend. This indicates the potential for the trend to exhaust itself, and that the demand is increasing or that the supply is dwindling. If we have tails, or shadows, formed at the tops of real bodies, especially after a long price rise, this indicates that the demand is drying up, and that the supply is increasing. The larger the shadow, the more important it is to analyse it in relation to the real body, as this may signify the strength of the reversal. The strongest of those are pins. In the image above, the Bullish pin bar's tail is pinning down, rejecting support. This is indicated by the bullish pin, thereafter, and we would see a surge of 'now-moment buyers', and, consequently, the price would increase. Conversely, when a bearish pin bar's tail is pinning up, and rejecting resistance, we would see a surge of 'now-moment sellers', and the price usually decreases in this instance. The strongest reversal candles have wicks that are much longer than the bodies, and a very small nose, or no nose at all. Depicted: Admiral Markets MetaTrader 5 - AUDUSD H1 Chart. Date Range: 21 October 2020 - 27 October 2020. Date Captured: 26 October 2020. Past performance is not necessarily an indication of future performance. Strong Momentum Candles Strong momentum candles, which usually open either at a support or a resistance level are called Marubozu candles. The Marubozu candle is a momentum candle with either a small, or no, tail. This type of candlestick pattern is really powerful and means a lot in regard to price movement. Marubozu defines a strong selling off resistance or a strong buying off support. Marubozu means 'bald head' or 'shaved head' in Japanese. This is because such a candle does not have at least one shadow, or the shadow is very small. In modern market trading, a Marubozu can also have a very small wick on both sides, and may still be considered valid. That is why the term momentum candle is used. A white Marubozu candle appearing in an uptrend may suggest a continuation, while in a downtrend, a white Marubozu can signify a potential bullish reversal pattern. Here are some examples of White Marubozus: Depicted: Admiral Markets MetaTrader 5 - GBPUSD H4 Chart. Date Range: 9 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Conversely, the Black Marubozu appearing in a downtrend may suggest its continuation, while in an uptrend, a Black Marubozu can signify a potential bearish reversal pattern. Here are some examples of Black Marubozus: Depicted: Admiral Markets MetaTrader 5 - USDCAD H1 Chart. Date Range: 22 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Important Forex Candlestick Patterns Explained Candlestick patterns occur very often in the Forex market, here is a list of some of the most common ones: Hammer Shooting Star Hanging Man Piercing Line Bullish/Bearish Engulfing Dark Cloud Spinning Top Three Black Crows Morning Star Of course, there are many more patterns. If you would like to learn more about candlestick patterns, why not read our articles on advanced patterns? Advanced Bullish Patterns Advanced Bearish Patterns In the next few sections, we have compiled a cheat sheet for you with some of the main Forex candlestick patterns! The Hammer Depicted: Admiral Markets MetaTrader 5 - GBPUSD H1 Chart. Date Range: 3 September 2020 - 8 September 2020. Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. The Hammer candle has a long lower shadow, which is usually twice the length of the real body. It is a bullish reversal candlestick pattern which appears at the bottom of downtrends. The body can be either bullish or bearish, but it is considered to be stronger if it's bullish. The Shooting Star Depicted: Admiral Markets MetaTrader 5 - USDJPY H1 Chart. Date Range: 14 October 2020 - 19 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. The Shooting Star candle appears in uptrends, signifying a potential reversal. The wick is long, upside, and longer than the body. The body can be either bullish or bearish, but it is considered to be stronger if it is bearish. The Hanging Man Depicted: Admiral Markets MetaTrader 5 - USDCAD H1 Chart. Date Range: 22 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. The Hanging Man candle is similar to the Hammer candle, but it occurs mainly at the top of uptrends, and can act as a warning of a potential downward reversal. The Piercing Line Depicted: Admiral Markets MetaTrader 5 - EURGBP H1 Chart. Date Range: 22 October 2020 - 27 October 2020. Date Range: 27 October 2020. Past performance is not necessarily an indication of future performance. The Piercing Line candle is a bullish reversal candlestick pattern. It is very common in the Forex market. This pattern occurs when the second bullish candle closes above the middle of the first bearish candle. The second candle's open is lower than the first candle's close. In the Forex market, the pattern is valid even if the second candle's open is equal to the first candle's close. Bullish and Bearish Engulfing Candle Bullish and bearish engulfing candles are reversal patterns. Bullish candles usually occur at the bottom of a downtrend, while bearish candles are spotted at the top of an uptrend. The bullish engulfing pattern is characterised by the two candles. The first one is contained within the real body of the second candle, which is always bullish. Here an example of bullish engulfing candles: Depicted: Admiral Markets MetaTrader 5 - USDJPY H4 Chart. Date Range: 9 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. The bearish engulfing pattern is also characterised by two candles. The first one is contained within the real body of the second candle, which is always bearish. Here is an example of bearish engulfing candles: Depicted: Admiral Markets MetaTrader 5 - USDJPY H1 Chart. Date Range: 22 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. The Dark Cloud Cover The Dark Cloud Cover candle is a bearish reversal pattern that shows in uptrends. It consists of two candles. The first one is bullish, and the second one is bearish. The Dark Cloud Cover candle is formed when the second candlestick opens above the close of the first candlestick, but then drops and closes above the open price of the first candlestick. This pattern is the reverse of the Piercing Line. Similarly, in the Forex market, the Dark Cloud Cover candlestick is valid even when the second candlestick opens at the close of the first candlestick. The important thing, however, is that the second candle in this pattern should close somewhere lower than the 50% mark of the first candle's body. Depicted: Admiral Markets MetaTrader 5 - GBPUSD H1 Chart. Date Range: 22 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Master Candle Concept Depicted: Admiral Markets MetaTrader 5 - GBPUSD H1 Chart. Date Range: 23 September 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. The Master candle is a concept known to most price action traders. The Master candle is defined by a 30-150 pip candlestick that engulfs the next four candlesticks. The breakouts of the Master candle can be traded if the 5th, 6th, or 7th candlestick break the range in order for a breakout trade to become valid. Depicted: Admiral Markets MetaTrader 5 - USDCAD H1 Chart. Date Range: 22 October 2020 - 27 October 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. This is a great Forex candlestick pattern formation that you should check for on a regular basis when trading. In the next section, we will provide an example of how a candlestick pattern strategy can work to trade Forex. Candlestick Pattern Trading Strategy This trading strategy is suitable for all types of trading – intraday, swing, even scalping -and, as the name suggests, is based on Forex candlestick patterns. Let's take a look at an example: Indicators: EMA (Exponential Moving Average) 30,60,100 set on close Entry signal: Candlestick pattern Time frame: 4H First, we need to set up the EMA to correspond to the general trend direction. We also need to install three EMAs on the chart. As shown in the example in the graph below, EMA 30 is blue, EMA 60 is red, and EMA 100 is green. Three EMAs need to be aligned properly in order to show a trend. When the blue EMA is below the red and green EMA, the trend is bearish. When the blue one is above the red and green ones, the trend is bullish. Bearish Trend Depicted: Admiral Markets MetaTrader 5 - USDCHEF H4 Chart. Date Range: 25 June 2020 - 2 September 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Bullish Trend Depicted: Admiral Markets MetaTrader 5 - GBPJPY H4 Chart. Date Range: 30 June 2020 - 5 September 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Please keep in mind that the EMAs need to be aligned correctly in order to show the trend. If the EMAs are intertwining, it means that we don't actually have a trend. Entries are made when the price makes a pullback towards the EMAs. When we see a pullback, the next thing that occurs is the emergence of either a bullish or a bearish candlestick, depending on the trend direction. Entries are made on any of the candlestick patterns we mentioned above - none is more reliable than the other. Hammer Shooting Star Hanging Man Piercing Line Bullish/Bearish Engulfing Dark Cloud The stop-loss in this example is placed 10 pips above the entry candle. For targets, we recommend using Admiral Pivot set on 'Weekly Timeframe'. The Admiral Pivot is one of many additional indicators only available in the Admiral Markets MetaTrader Supreme Edition. Source: Admiral Pivot - MetaTrader 5 Supreme Edition Bearish Trade Example Depicted: Admiral Markets MetaTrader 5 - GBPJPY H4 Chart. Date Range: 3 August 2020 - 4 September 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. Bullish Trade Example Depicted: Admiral Markets MetaTrader 5 - USDCAD H4 Chart. Date Range: 4 August 2020 - 7 September 2020. Date Captured: 27 October 2020. Past performance is not necessarily an indication of future performance. It is always best to wait for a pullback to at least touch the blue EMA before making an entry decision. Forex candlestick pattern trading can be profitable if you implement proper risk management within your trading strategies, and effectively manage the risks involved. Always practice on a Demo trading account first before moving to a live trading account. By doing so, you allow yourself to make mistakes and learn within a risk-free trading environment, before you take your strategies into the live markets. Trade Forex With Admiral Markets If you feel ready to trade Forex on the live markets, an Admiral Markets trading account might be more suitable for you. With Admiral Markets, you can trade Forex 24 hours a day 5 days a week, with access to a range of Forex currency pairs! Click the banner below to open an account today! Other articles that may interest you: About Admiral Markets Admiral Markets is a multi-award winning, globally regulated Forex and CFD broker, offering trading on over 8,000 financial instruments via the world's most popular trading platforms: MetaTrader 4 and MetaTrader 5. Start trading today! This material does not contain and should not be construed as containing investment advice, investment recommendations, an offer of or solicitation for any transactions in financial instruments. Please note that such trading analysis is not a reliable indicator for any current or future performance, as circumstances may change over time. Before making any investment decisions, you should seek advice from independent financial advisors to ensure you understand the risks. forex candlestick patterns strategy pdf

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