

Contents at a Glance

<i>Introduction</i>	1
<i>Part I: Getting Familiar with Candlestick Charting and Technical Analysis</i>	7
Chapter 1: Understanding Charting and Where Candlesticks Fit In	9
Chapter 2: Getting to Know Candlestick Charts	17
Chapter 3: Building a Base of Candlestick Chart Knowledge	31
Chapter 4: Using Electronic Resources to Create Full Charts	49
<i>Part II: Working with Simple Candlestick Patterns</i>	71
Chapter 5: Working with Straightforward Single-Stick Patterns	73
Chapter 6: Single-Stick Patterns That Depend on Market Context	95
Chapter 7: Working with Bullish Double-Stick Patterns	123
Chapter 8: Utilizing Bearish Double-Stick Patterns	155
<i>Part III: Making the Most of Complex Patterns</i>	185
Chapter 9: Getting the Hang of Bullish Three-Stick Patterns	187
Chapter 10: Trading with Bearish Three-Stick Patterns	217
<i>Part IV: Combining Patterns and Indicators</i>	247
Chapter 11: Using Technical Indicators to Complement Your Candlestick Charts	249
Chapter 12: Buy Indicators and Bullish Reversal Candlestick Patterns	267
Chapter 13: Sell Indicators and Bearish Reversal Candlestick Patterns	279
Chapter 14: Using Technical Indicators Alongside Bullish-Trending Candlestick Patterns	291
Chapter 15: Combining Technical Indicators and Bearish-Trending Candlestick Patterns	303
<i>Part V: The Part of Tens</i>	315
Chapter 16: Ten Myths about Charting, Trading, and Candlesticks	317
Chapter 17: Ten Tips to Remember about Technical Analysis	323
<i>Index</i>	329

Table of Contents

***Introduction*..... 1**

About This Book.....	1
Conventions Used in This Book	2
What You're Not to Read.....	2
Foolish Assumptions	3
How This Book Is Organized.....	3
Part I: Getting Familiar with Candlestick Charting and Technical Analysis	3
Part II: Working with Simple Candlestick Patterns.....	4
Part III: Making the Most of Complex Patterns	4
Part IV: Combining Patterns and Indicators	4
Part V: The Part of Tens.....	5
Icons Used in This Book.....	5
Where to Go from Here.....	6

***Part I: Getting Familiar with Candlestick Charting and Technical Analysis* 7**

Chapter 1: Understanding Charting and Where Candlesticks Fit In 9

Considering Charting Methods and the Role of Candlesticks.....	10
Getting a feel for your options for charting.....	10
Realizing the advantages of candlestick charting.....	10
Understanding Candlestick Components	11
Working with Candlestick Patterns.....	12
Simple patterns.....	13
Complex patterns.....	13
Making Technical Analysis Part of Your Candlestick Charting Strategy	14
Trading Wisely: What You Must Understand	
Before Working the Markets.....	14
Trading can be an expensive endeavor.....	14
Paper trading costs you nothing but time	15
Developing rules and sticking to them.....	15



Chapter 2: Getting to Know Candlestick Charts17

- Recognizing the Many Benefits of Candlestick Charting18
 - Seeing is believing: Candlesticks are easy to read19
 - You can spot bears and bulls quickly20
 - Seeing into the future (sort of)22
 - Showing price patterns.....23
- Admitting the Potential Candlestick Charting Risks25
- Comparing Candlestick Charts with Alternative Charting Methods26
 - Line charts.....27
 - Bar charts27
 - Point and figure charts29

Chapter 3: Building a Base of Candlestick Chart Knowledge31

- Constructing a Candlestick: A Core of Four.....31
 - Price on the open32
 - High and low price for the session.....35
 - Price on the close.....38
- Considering Additional Information Included on Candlestick Charts39
 - Volume39
 - Open interest40
 - Technical indicators.....42
 - Fundamental information.....43

Chapter 4: Using Electronic Resources to Create Full Charts49

- Turning to the Web for Candlestick Charting Resources.....50
 - Using Yahoo! Finance for charting, trading, and investing50
 - Working with BigCharts.com52
 - Charting on CNBC.com.....54
 - Using Reuters.com for candlestick charting.....56
- Creating Candlestick Charts Using Microsoft Excel57
 - Finding the data for your chart57
 - Making sure the data is in the correct format58
 - Building an Excel candlestick chart59
 - Adding a moving average to an Excel candlestick chart.....60
 - Adding a trendline to an Excel candlestick chart63
 - Adding volume data to an Excel candlestick chart.....64
- Exploring Your Charting Package Software Options66
 - Remembering a few key points when
 - selecting charting software67
 - Considering a few charting package options.....69

Part II: Working with Simple Candlestick Patterns 71

Chapter 5: Working with Straightforward Single-Stick Patterns ... 73

The Bullish White Marubozu	74
Understanding long white candles.....	74
Identifying the three variations of the long white candle	78
The Bullish Dragonfly Doji	80
Recognizing a dragonfly doji.....	81
Trading based on a dragonfly doji	83
The Bearish Long Black Candle.....	84
Understanding long black candles	85
Identifying black marubozus.....	86
Trading based on long black candles	88
The Bearish Gravestone Doji.....	90
Identifying the gravestone doji.....	90
Trading based on gravestone dojis.....	92

Chapter 6: Single-Stick Patterns That Depend on Market Context 95

Understanding Market Environments	96
The three market states	96
Identifying the market trend	96
Delving Into Dojis	98
The long legged doji.....	98
Other dojis	104
Looking At Other Patterns: Spinning Tops	108
Identifying spinning tops.....	108
Using spinning tops for profitable trading.....	109
Discovering More about Belt Holds.....	112
Spotting belt holds on a chart	113
Buckling down for some belt hold-based trading	113
Deciphering between the Hanging Man and the Hammer	118
Spotting and distinguishing the hanging man and the hammer.....	118
Trading on the hanging man and the hammer	119

Chapter 7: Working with Bullish Double-Stick Patterns 123

Bullish Reversal Patterns	124
Bullish engulfing pattern	124
Bullish harami.....	128
Bullish harami cross	130
Bullish inverted hammer.....	134

Bullish doji star.....	137
Bullish meeting line.....	140
Bullish piercing line.....	142
Bullish Trend-Confirming Patterns	145
Bullish thrusting lines.....	145
Bullish separating lines	147
Bullish neck lines.....	150

Chapter 8: Utilizing Bearish Double-Stick Patterns155

Understanding Bearish Reversal Patterns.....	155
The bearish engulfing pattern	156
The bearish harami pattern.....	159
The bearish harami cross pattern.....	161
The bearish inverted hammer pattern.....	164
The bearish doji star.....	167
The bearish meeting line.....	168
The bearish piercing line or dark cloud cover pattern.....	172
Making a Profit with Bearish Trend Patterns	174
The bearish thrusting lines	175
The bearish separating lines.....	178
The bearish neck lines.....	180

Part III: Making the Most of Complex Patterns 185

Chapter 9: Getting the Hang of Bullish Three-Stick Patterns187

Understanding Bullish Three-Stick Trend Reversal Patterns.....	187
The three inside up pattern	188
The three outside up pattern.....	191
The three white soldiers pattern.....	193
The morning star and bullish doji star patterns.....	196
The bullish abandoned baby pattern	199
The bullish squeeze alert pattern	201
Working with Bullish Three-Stick Trending Patterns	204
The bullish side-by-side white lines pattern.....	204
The bullish side-by-side black lines pattern.....	207
The upside tasuki gap pattern.....	210
The upside gap filled pattern.....	214

Chapter 10: Trading with Bearish Three-Stick Patterns217

Understanding Bearish Three-Stick Trend Reversal Patterns.....	217
The three inside down pattern	218
The three outside down pattern	220
The three black crows pattern	223

The evening star and bearish doji star patterns	226
The bearish abandoned baby pattern	229
The bearish squeeze alert pattern	231
Forecasting Downtrend Continuations.....	234
The bearish side-by-side black lines pattern.....	234
The bearish side-by-side white lines pattern.....	237
The downside tasuki gap pattern.....	240
The downside gap filled pattern.....	242

Part IV: Combining Patterns and Indicators.....247

Chapter 11: Using Technical Indicators to Complement Your Candlestick Charts249

Using Trendlines.....	250
Drawing trendlines	250
Considering trendline direction	251
Taking advantage of automated trendlines	252
Utilizing Moving Averages.....	253
Selecting appropriate moving average periods.....	253
Using simple moving averages	253
Using other types of moving averages: What have you done for me lately?	255
Combining two moving averages	258
Combining three moving averages.....	258
Examining the Relative Strength Index.....	260
Calculating the RSI	261
Reading an RSI chart	262
Cashing In on Stochastics	263
Grasping the math behind the stochastic oscillator	263
Interpreting the stochastic oscillator	264
Buddying up with Bollinger Bands	265
Creating Bollinger bands	265
Using the bands	266

Chapter 12: Buy Indicators and Bullish Reversal Candlestick Patterns267

Buying with the RSI and Bullish Reversal Candlestick Patterns	267
Using the RSI to help pick a long entry point	268
Using the RSI to help pick long exits.....	270
Buying with the Stochastic Indicator and a Bullish Reversal Candlestick Pattern.....	272
Using the stochastic indicator to help pick a long entry point....	273
Using the stochastic indicator to help pick long exits	274

Chapter 13: Sell Indicators and Bearish Reversal Candlestick Patterns	279
Shorting with the RSI and Bearish Candlestick Patterns	279
Picking short entry points with the RSI and candlesticks	280
Using the RSI to help pick short entry and exit points	282
Using the Stochastic Indicator and Bearish Candlestick Patterns for Shorting	285
Picking short entry points	286
Deciding when to get in and out of shorts	288
 Chapter 14: Using Technical Indicators Alongside Bullish-Trending Candlestick Patterns	 291
Using Trendlines and Bullish-Trending Candlestick Patterns for Buying and Confirmation	292
Using trendlines and bullish-trending candlestick patterns to pick long entry points and confirm trends	292
Picking long exits and determining stop levels with trendlines and bullish-trending candlestick patterns	294
Combining Moving Averages and Bullish-Trending Candlestick Patterns	297
Using moving averages with bullish-trending candlestick patterns to confirm trends	297
Using the moving average and bullish-trending candlestick patterns to pick long exits and determine stop levels	300
 Chapter 15: Combining Technical Indicators and Bearish-Trending Candlestick Patterns	 303
Putting Trendlines Together with Bearish-Trending Candlestick Patterns for Selling and Confirmation	303
Short trades and trend confirmation with trendlines and bearish patterns	304
Bearish trendlines and candlestick patterns leading to short entries and exits	306
Combining Moving Averages and Bearish-Trending Patterns for Short Situations	309
Pinning down short entry points and confirming trends	309
Using moving averages and bearish-trending candlestick patterns to pick short exits and select stop levels	311

<i>Part V: The Part of Tens</i>	315
Chapter 16: Ten Myths about Charting, Trading, and Candlesticks . .	317
There's No Difference between Candlesticks and Bar Charts	317
Market Efficiency Makes It Impossible to Beat the Market over the Long Run	318
Only a Full-time Professional Can Make Money in the Markets	318
Technical Analysis Is Nothing More Than Reading Tea Leaves	319
Charting Is for Short-Term Traders Only	320
You Must Be Rich to Start Trading.....	320
Trading Is an Easy Way to Get Rich Quick	321
Candlestick Charts Require More Data and Are More Difficult to Create	321
The Trading Game Is Stacked against the Small Trader	321
Selling Short Is for Professional Traders Only	322
Chapter 17: Ten Tips to Remember about Technical Analysis	323
Charts Can Give False Signals.....	323
People Will Give You a Hard Time.....	324
There's No Definite Right or Wrong Opinion of a Chart.....	324
A Single Chart Doesn't Tell a Whole Story.....	324
Charting Is Part Science, Part Art	325
You Can Overdo It	325
Develop a Backup System	326
Error-Free Data Doesn't Exist	326
No System Is Silly As Long As It Works	326
Past Results Don't Always Predict Future Performance	327
<i>Index</i>	329

