

# 8 Day Intensive Course

## Lesson 2: Candlestick Patterns

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### A) Using Candlesticks to Identify Reversals

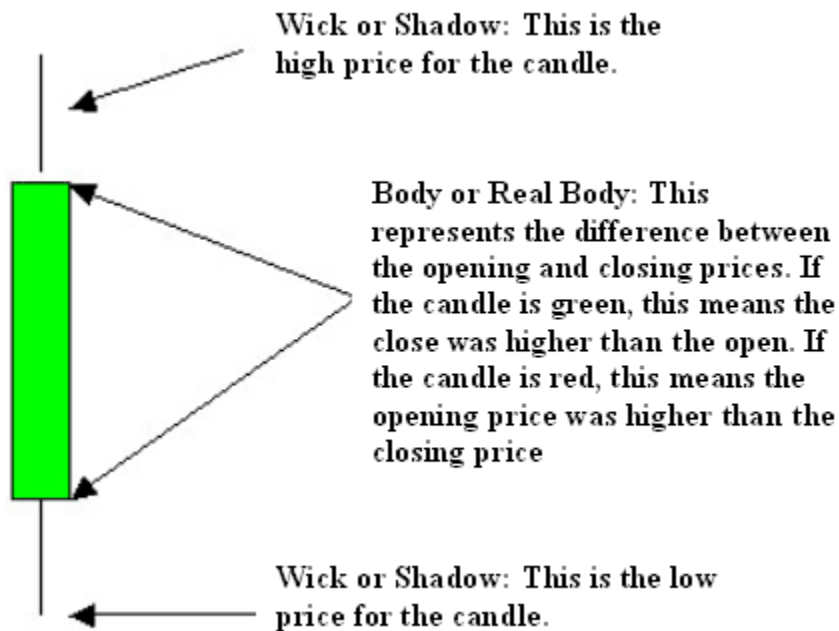
#### What are candlesticks?

Candlestick charts convey information pertaining to price action, or the movement of a currency pair's price over the specified amount of time. Each candlestick contains four attributes:

- *the opening price of the currency pair at the time the candle opened*
- *the closing price*
- *the high of the time frame*
- *the low of the time frame*

On a daily chart, each candle represents a 24 hour period; on an hourly chart each candle represents an hour, and so on.

A visual analysis of a candlestick is as follows:



#### Key Definitions

**Body:** The difference between the opening price and the closing price. This is the wide portion of the candle that is colored red or green.

**Wick or Shadow:** The thin portion of the candle that represents the extreme high and low points for the time period represented by that candle.

#### Key Concept: Candlesticks Signal Reversals

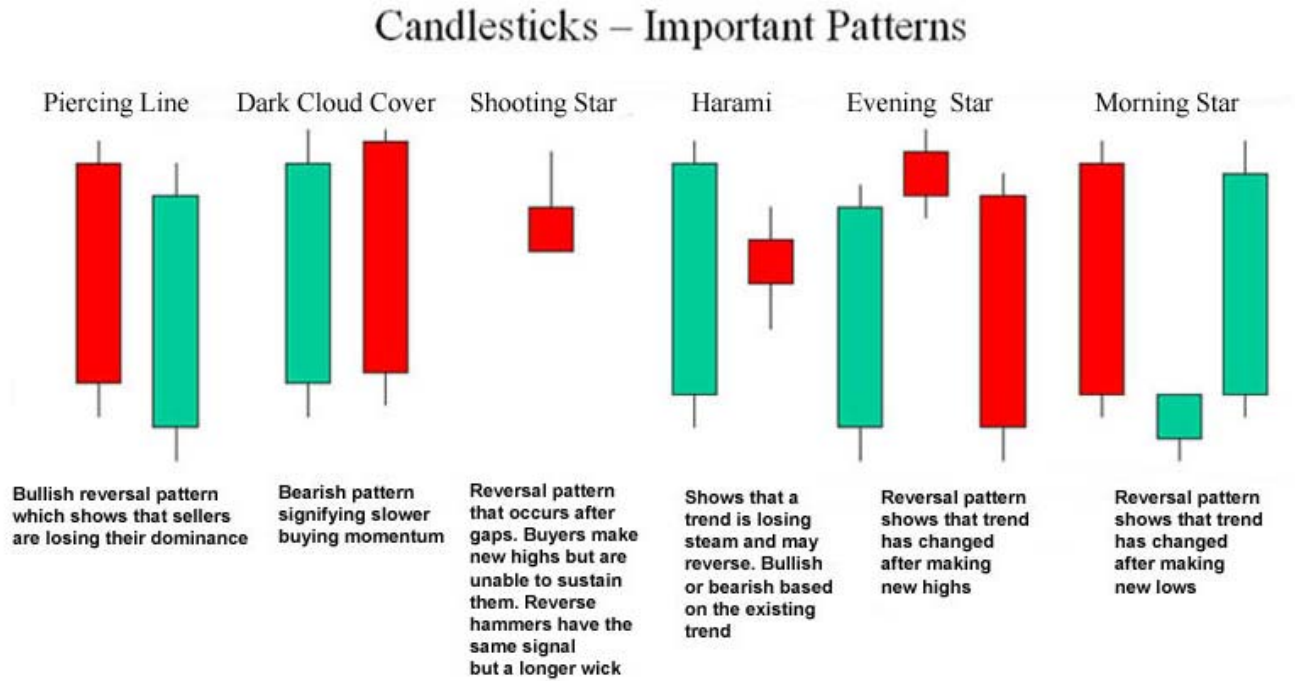
· *Candlesticks can be used to identify trend reversals in the market*

So why are candlesticks so important in trading? Simply put, it is because they are the best gauge of what is going on in the market at the present time. Candlesticks give us insight into the emotions of the market participants. Although traders may come and go over time, human emotion remains constant. A certain series of events creates a candlestick pattern, and when we see that pattern we know exactly what has transpired.

Ultimately, candlesticks can easily be used to identify potential reversals of trends in the market – especially when used in conjunction with other indicators.

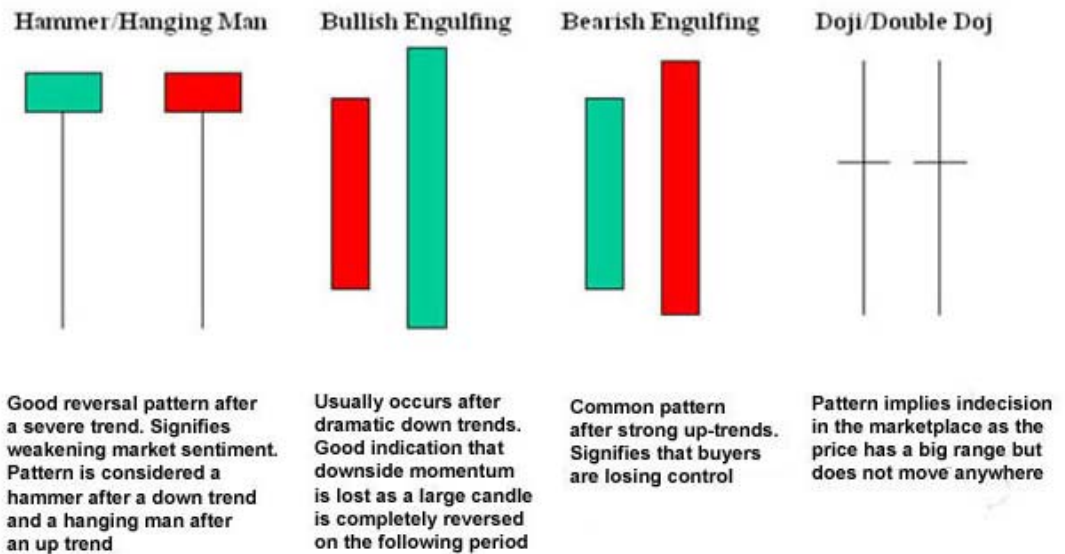
## B) Key Candlestick Patterns

The following are key candlestick patterns to look for:



When these patterns appear in a chart, and when they appear at levels that coincide with other indicators – such as Fibonacci retracement levels, or moving averages – they create a potential trading opportunity.

## Candlesticks – Important Patterns



### C) Assignment – Place a Trade

Identify a currency pair whose chart shows a candlestick formation noted in this lesson on its most recent daily candle. It is VERY IMPORTANT that the candle is closed; one of the most common errors that traders make is analyzing a candle that is still open. Determine whether this is a good entry point or not, based on how close support and resistance lines appear to the current price. If you do find a good trade, use an entry or market order to enter a position. If no good opportunities were available, tell us why you decided not to place a trade.

### D) Question of the Day

This question is valid for all the technical indicators, not just for candlestick patterns, but how would you view a candlestick pattern on an hourly chart on a daily chart versus one on a 5 minute chart? Which would be more valid and why? How would it affect your target in terms of profit

### E) Question of the Day

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## **F) Quiz**

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### **Quiz: Candlesticks**

Please test yourself on your knowledge learned from this lesson at the Quiz Center in the Candlesticks quiz. The quiz center is located at the following link.

<http://www.learncurrencytrading.com/main/>

If you are unable to access the quiz center please email [instructor@fxpowercourse.com](mailto:instructor@fxpowercourse.com)

### **G) Animated Lesson:**

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The following link(s) illustrate how the various indicators can be used to identify the best times to initiate a position, keep losses relatively small, and take advantage of trading situations that may occur over the course of a trading day. Please feel free to pause each animation or replay it as many times as you wish. In addition, please turn your speakers on to listen to the audio segment as well.

<http://www.learncurrencytrading.com...ingmarketsM.swf>