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Confusion and uncertainty: the two common attributes of the stock market. The random short-term movements in public trading create a lot of confusion and certainly add to uncertainty among traders. A novice understands this reality, but even experienced professionals who have been trading for years suffer the same affliction.

This is where chart analysis becomes valuable. No one can claim a perfect record of timing buy and sell decisions, and no one realistically expects to beat the market with every trade. It is enough to beat the averages and to outperform the typical profit or loss experience ratio. For many, today’s profits are eroded by tomorrow’s losses, and so many individual traders find themselves seeking trades just to get back up to dead even. The candlestick chart is a valuable tool that helps you anticipate trends in a stock’s price and improve the timing of buy and sell orders. Ironically, even experienced traders who refer regularly to candlestick charts often are not well versed in recognition of patterns or their significance.

This book first describes candlestick charts in detail and shows how they are constructed. The advantage with this visual aid is that you can find all the price information in one symbol. This includes a day’s opening and closing price, the trading range, and direction (upward or downward) of movement. The candlestick also shows each day’s breadth of trading range. When you view an array of charts over a number of trading periods, you can determine in an instant whether a stock is high- or low-volatility, whether it is trending upward or downward, and most of all, when to make a move. Collectively, this is a valuable set of statistics. Most traders who have analyzed price movement using candlesticks understand these basic attributes, but if this is the extent of your understanding, you need more.

Beyond the basics, this book explains how to recognize different kinds of signs, moves, and patterns (bull, bear, reversal, and market) and how to employ double and triple stick formations to better understand why prices are behaving in a particular manner. Many of these moves and patterns are subtle, and their meaning is easily lost in the more recognizable patterns most traders seek.
Candlesticks are also valuable when analyzed in combination with other indicators. For example, two factors often overlooked in price-focused technical analysis are the critical attributes of price movement and risk: volume and volatility. This book explains how candlestick chart analysis employing these important features will help you improve your mastery of stock trading. Advanced technical analysis can be greatly enhanced by combining candlestick indicators with the better-known price patterns and trends.

Chapter 7, “Buy and Sell Setup Signals,” examines and analyzes the use of swing trading techniques to improve the timing of trades. A setup is a sign found in candlestick movement and breadth, pointing to the best timing of either buy or sell, and also serving as a confirmation tool. Adding to this the trend indicators found in moving averages, you gain valuable insights that will become indispensable in your daily trading strategy. Moving averages show you not only where prices are today, but how these are significant in terms of what will happen next. Unfortunately, the popular convergence signals often come too late to take action and maximize the timing advantage. This is where candlestick patterns can help you anticipate trends well before other indicators solidify the information.

The entire range of technical indicators involves timing of decisions. Candlestick charts are timing tools not only for trends in upward or downward directions, but also for determining the strength of the current movement or its weakness. Some patterns are easily identified, whereas others reflect a lot of uncertainty among traders. The endless struggle between buyers and sellers usually involves one side or the other dominating the price movement, but at times buyers and sellers are deadlocked. This condition is just as important as a strong bull or bear pattern because it also helps time your decision to buy, sell, or take no action.

After introducing the patterns of single and combined candlesticks, exploring setup signals, and examining moving averages, Trading with Candlesticks concludes with an analysis of candlesticks used in combination with technical indicators that most chart analysts employ. Analysis of price movement requires at least a rudimentary appreciation of a few very important price patterns, and these are most readily recognized with candlestick patterns. Whether you are an active day trader, a swing trader, or a technician, this book provides the essential visual and interpretative information you need to expand your technical knowledge. Even the conservative value investor who dabbles in speculation from time to time will find great value in the study of candlestick charts.
The book combines several important features to help you. They include sidebars with key points and definitions, ample checklists, and examples and charts of actual companies demonstrating candlestick chart movement and their interpretation. A word about the charts of actual companies: No matter which company’s charts are used or when they are picked, any chart is likely to reflect a range of prices that is out of date by the time this book is published. Most of the charts in this book are from familiar Blue Chip companies because these names are well known to most people, and that familiarity makes the analysis more accessible and practical for most readers. Remember, though, that even an out-of-date chart is revealing. It’s not the price level or current condition of a stock that matters, but the pattern and strength or weakness of price movement. The observations based on these charts apply to all stocks and at all price levels.

The charts are also consistent in their time frame. They are mostly one-month daily summaries of price movement. This approach was selected because a majority of traders think in terms of the opening and closing price, breadth of trading, and direction on a daily basis. Stocks open and close within the easily defined day, and this is the best-known trading period. But it is also important to understand that chartists use a variety of different trading periods—hourly, 15-minute, or 5-minute charts, for example. The amazing thing about charting is that no matter what length of time you use in your chart analysis, the same rules and observations apply. A pattern is going to be found in a daily or weekly chart and likewise in a one-minute chart. The significance of movement is identical even though the timing of trade decisions is different. So a trader oriented to making decisions from day to day is going to act in the venue of “daily” change. A day trader, in comparison, is likely to use the shorter-term charts and make decisions in terms of hours or even minutes. Both are using the same trading information, moving averages, and patterns; that is the fact worth remembering.

Finally, the question must arise: Where do you find free charts? Many Web sites offer free charts for virtually any listed stock, and you can use these sites to get what you need for stocks you want to track and trade. These sites also offer subscriptions that include more advanced features beyond the basic delayed-quote chart. For many traders, the free information provided by brokerage firms, financial companies, and others is enough. For other traders, the cost of a subscription makes the added information worth the price.

This book is intended for the experienced trader and technician who wants to find out how charting can improve technical analysis or who needs to add to a body of knowledge about interpreting technical patterns and time buy, sell,
and hold decisions. Candlesticks are one of the best tools for aiding analysis of stock prices and confirming indicated reversals and continuations or, equally important, spotting signals that are going to fail. The point of adding to technical knowledge through confirmation signals is to improve timing and to employ more traditional technical indicators in an effective timing strategy.
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