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Candlestick Patterns — Complete Guide

Every major price move starts with a candle. Learn to read Doji, Hammer, Engulfing, Morning Star and every other essential candlestick pattern — and what each one really tells you about buyers and sellers.

1. Introduction — Why Candlesticks Matter

Candlestick charting was developed by Japanese rice traders over 300 years ago, long before modern technical analysis existed. Munehisa Homma, a rice merchant from Sakata, is widely credited with refining the method to track price psychology in the rice markets of Osaka. The technique reached the Western world in the 1990s and has since become the default way traders everywhere read price charts.

Unlike a simple line chart, which only shows the closing price, a candlestick shows four pieces of information for every period — the open, high, low, and close — in a single, compact shape. Once you learn to read that shape, a chart stops being a random squiggle and starts telling you a story about who was in control: buyers or sellers.

KEY	A candlestick pattern is not a prediction — it is a snapshot of the emotional battle between buyers and sellers during that period. Reading it correctly tells you who is winning that battle right now, which is the first step to trading in the right direction.

In this guide, we will cover every candlestick pattern a retail trader genuinely needs: single-candle patterns, two-candle patterns, and three-candle patterns — how to identify each one, what it means, and how to trade it with proper risk control.

2. Anatomy of a Candlestick

Every single candlestick — regardless of the timeframe, whether it represents one minute, one day, or one week — is built from the same four data points: Open, High, Low, and Close (often abbreviated OHLC).

- Real Body: The thick rectangular part of the candle. It represents the range between the open and the close for that period.
- Upper Wick (or Upper Shadow): The thin line above the body, marking the highest price touched during the period.
- Lower Wick (or Lower Shadow): The thin line below the body, marking the lowest price touched during the period.

Colour: If the close is higher than the open, the candle is bullish (typically shown in green). If the close is lower than the open, the candle is bearish (typically shown in red).

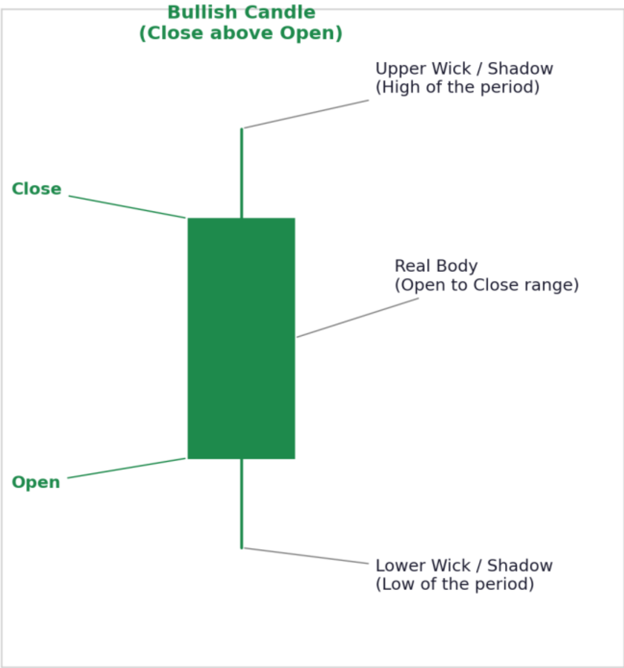

Fig 2.1 — The anatomy of a single candlestick: real body, upper wick, and lower wick.

📌 Real-Life Analogy

Think of a candle as a one-line summary of an entire day's tug-of-war. The body tells you who won by the end of the day (buyers or sellers) and by how much. The wicks tell you how hard the losing side fought during the day, even though they eventually lost control of the closing price.

3. Single-Candle Patterns

Single-candle patterns are formed by just one candle, but their meaning always depends on where that candle appears — at the top of an uptrend, at the bottom of a downtrend, or in a sideways range. The same exact candle shape can mean completely different things depending on the context that precedes it.

Fig 3.1 — The seven essential single-candle patterns.

3.1 Doji

A Doji forms when the open and close are virtually equal, leaving little to no real body — just a thin cross or plus-sign shape. It signals pure indecision: neither buyers nor sellers could gain control during that period. A Doji after a strong uptrend or downtrend is an early warning that the prevailing trend may be losing momentum.

3.2 Hammer

A Hammer has a small body near the top of its range, little or no upper wick, and a long lower wick at least twice the length of the body. It appears after a downtrend. The long lower wick shows sellers pushed price sharply lower during the period, but buyers fought back hard and dragged the close back up near the open — a classic sign of a potential bottom.

3.3 Hanging Man

Visually identical to the Hammer — small body at the top, long lower wick — but it appears after an uptrend instead of a downtrend. Here, the long lower wick is a warning sign: it shows that sellers were able to push price sharply lower intraday even while the trend was still up, hinting that selling pressure is building beneath the surface.

TIP	Hammer and Hanging Man look exactly the same. The only thing that tells them apart is the trend that came before them — Hammer at the bottom of a downtrend (bullish), Hanging Man at the top of an uptrend (bearish). Context is everything.

3.4 Inverted Hammer

The mirror image of the Hammer — a small body near the bottom of its range, with a long upper wick and little or no lower wick. It appears after a downtrend. Buyers pushed price sharply higher during the period before sellers pulled it back down, but the attempt itself signals early buying interest returning.

3.5 Shooting Star

Visually identical to the Inverted Hammer — small body at the bottom, long upper wick — but it appears after an uptrend. It shows buyers tried to push price to new highs, but were firmly rejected, and sellers dragged the close back down near the open — an early warning of a potential top.

3.6 Marubozu

A Marubozu has almost no wicks at all — the open is at (or very near) the high or low, and the close is at (or very near) the opposite end. A bullish Marubozu opens at the low and closes at the high, showing buyers were in total control from the first tick to the last. A bearish Marubozu does the opposite. Marubozu candles show strong conviction and often mark the start or continuation of a powerful move.

3.7 Spinning Top

A Spinning Top has a small real body roughly centred between two long wicks of similar length on both sides. Like the Doji, it signals indecision — but with more back-and-forth movement during the period than a Doji shows. Appearing after a strong trend, it is often an early sign that momentum is fading.

4. Two-Candle Patterns

Two-candle patterns capture a shift in control happening over two consecutive periods — the first candle represents the prevailing side, and the second candle shows that control being challenged or reversed.

Fig 4.1 — The six essential two-candle patterns.

4.1 Bullish Engulfing

A small bearish (red) candle is followed by a larger bullish (green) candle whose body completely 'engulfs' the body of the first candle. It appears after a downtrend and shows buyers overwhelming sellers so decisively that the entire previous session's range is erased in a single move.

4.2 Bearish Engulfing

The mirror image — a small bullish candle is followed by a larger bearish candle that completely engulfs it. It appears after an uptrend and shows sellers seizing control so forcefully that they wipe out the previous session's gains and then some.

4.3 Piercing Line

A bearish candle is followed by a bullish candle that opens below the first candle's low (a gap down) but then rallies to close above the midpoint of the first candle's body. It appears after a downtrend and shows a strong, decisive shift back toward buyers — though not as complete as a full Bullish Engulfing.

4.4 Dark Cloud Cover

The mirror image of the Piercing Line — a bullish candle is followed by a bearish candle that opens above the first candle's high but closes below the midpoint of the first candle's body. It appears after an uptrend and warns that sellers have stepped in with real force.

4.5 Bullish and Bearish Harami

A Harami ('pregnant' in Japanese) is the opposite of an Engulfing pattern: a large candle is followed by a much smaller candle whose entire body sits inside the range of the first candle's body. A Bullish Harami (large bearish candle, then a small candle inside it) appears after a downtrend and hints that selling momentum is stalling. A Bearish Harami (large bullish candle, then a small candle inside it) appears after an uptrend and hints that buying momentum is stalling.

KEY	Engulfing patterns show a decisive, forceful takeover — the second candle's body swallows the first. Harami patterns show the opposite: a sudden loss of energy — the second candle's body shrinks inside the first. Both signal a possible reversal, but Engulfing is the more forceful, higher-conviction signal of the two.

Concrete Example

Suppose HDFC Bank has been rallying for a week and prints a strong bullish candle closing at ₹1,680. The next day it opens at ₹1,695 (a gap up) but sellers take over and it closes at ₹1,610 — below the midpoint of the previous candle's body. That is a Dark Cloud Cover, and combined with the stock being extended after a strong run, it is a caution flag for existing long positions.

5. Three-Candle Patterns

Three-candle patterns are generally the most reliable candlestick signals because they show a complete, three-act story: the old trend, a moment of indecision or pause, and then confirmation of the new direction.

Fig 5.1 — The four essential three-candle patterns.

5.1 Morning Star

A three-candle bullish reversal pattern that appears after a downtrend: (1) a large bearish candle continuing the downtrend, (2) a small-bodied candle (often a Doji or spinning top) that gaps lower, showing indecision, and (3) a large bullish candle that closes well into the body of the first candle. It is called a 'star' because the middle candle sits apart from the other two, like a star appearing at dawn just before the sun (the reversal) rises.

5.2 Evening Star

The mirror image, appearing after an uptrend: (1) a large bullish candle continuing the uptrend, (2) a small-bodied candle that gaps higher, showing indecision, and (3) a large bearish candle that closes well into the body of the first candle. It marks the 'evening' — the sun (the uptrend) setting.

5.3 Three White Soldiers

Three consecutive long bullish candles, each opening within the previous candle's body and closing at or near a new high, with only small wicks. It appears after a downtrend or a period of consolidation and signals a strong, steady, broad-based shift to buyers — generally considered one of the most reliable bullish reversal signals.

5.4 Three Black Crows

The mirror image — three consecutive long bearish candles, each opening within the previous candle's body and closing at or near a new low. It appears after an uptrend and signals a strong, steady shift to sellers.

TIP

The middle candle of a Morning Star or Evening Star does not have to be a perfect Doji — any small-bodied candle that shows a clear pause works. What matters most is the size and conviction of the third candle: the deeper it closes into the first candle's body, the stronger the reversal signal.

Concrete Example

Suppose Reliance Industries falls for several sessions, prints a long bearish candle closing at ₹2,820, then a small-bodied candle that gaps down and closes near ₹2,790, then a strong bullish candle that rallies all the way back to close at ₹2,880 — well inside the body of the first candle. That three-candle sequence is a Morning Star, and most traders would look for a close above the third candle's high as final confirmation before entering.

6. Volume & Context — Confirming Candlestick Signals

A candlestick pattern read in isolation is far weaker than one read in context. Before acting on any pattern, always check the following three things.

Factor	What to Check	Why It Matters
Prior Trend	Was there a clear, established uptrend or downtrend before the pattern?	Reversal patterns only mean something if there is an existing trend to reverse
Volume	Did volume rise on the key reversal candle (Engulfing body, third star candle, etc.)?	High volume shows real conviction; a pattern on thin volume is far less reliable
Location	Did the pattern form near a known support/resistance zone or a round number?	Patterns that coincide with an existing technical level carry much higher reliability

Most professional traders also wait for one further candle of confirmation — for example, a close above a Hammer's high, or above a Morning Star's third candle — before actually entering a trade, rather than acting the moment the pattern completes.

7. Common Mistakes Traders Make with Candlestick Patterns

- Ignoring the trend: Treating every Hammer-shaped candle as bullish, even when it appears in the middle of a strong uptrend where it actually means nothing.
- Trading on a single candle alone: Acting on a pattern the moment it forms, without waiting for the next candle to confirm the reversal.
- Ignoring volume: Treating a low-volume Engulfing candle with the same weight as a high-volume one — the two are not equally reliable.
- Pattern-hunting on every timeframe: Finding 'patterns' on a 1-minute chart with no regard for the larger daily or weekly trend they sit inside.
- Skipping the stop-loss: Assuming a textbook-looking pattern guarantees the trade will work, and refusing to exit when price invalidates the signal.

Real-Life Analogy
A single candlestick pattern without trend context is like overhearing one sentence of a conversation — it might sound dramatic, but you have no idea what it actually means without knowing what was said before it. Always read the sentence before it, not just the exclamation mark.

8. Quick Reference — All Patterns Compared

Pattern	Candles	Appears After	Signal
Doji	1	Any trend	Indecision / possible pause
Hammer	1	Downtrend	Bullish reversal
Hanging Man	1	Uptrend	Bearish reversal
Inverted Hammer	1	Downtrend	Bullish reversal
Shooting Star	1	Uptrend	Bearish reversal
Marubozu	1	Any trend	Strong continuation / conviction
Spinning Top	1	Any trend	Indecision
Bullish Engulfing	2	Downtrend	Strong bullish reversal
Bearish Engulfing	2	Uptrend	Strong bearish reversal
Piercing Line	2	Downtrend	Bullish reversal
Dark Cloud Cover	2	Uptrend	Bearish reversal
Bullish / Bearish Harami	2	Downtrend / Uptrend	Momentum stalling
Morning Star	3	Downtrend	Strong bullish reversal

Pattern	Candles	Appears After	Signal
Evening Star	3	Uptrend	Strong bearish reversal
Three White Soldiers	3	Downtrend / consolidation	Strong bullish reversal
Three Black Crows	3	Uptrend	Strong bearish reversal

9. Chapter Summary

Here is everything you learned in this guide in one concise recap:

- A candlestick packs four data points — open, high, low, close — into one shape, colour-coded by whether the close was above or below the open.
- Single-candle patterns (Doji, Hammer, Hanging Man, Inverted Hammer, Shooting Star, Marubozu, Spinning Top) depend entirely on the trend that preceded them for their meaning.
- Two-candle patterns (Bullish/Bearish Engulfing, Piercing Line, Dark Cloud Cover, Harami) show a battle for control being decisively won or quietly stalling over two sessions.
- Three-candle patterns (Morning Star, Evening Star, Three White Soldiers, Three Black Crows) are generally the most reliable, showing a complete old-trend / pause / new-trend story.
- No candlestick pattern should be traded in isolation — always check the prior trend, volume on the key candle, and whether the pattern sits near a known support or resistance level.
- Most professional traders wait for one further candle of confirmation before entering, rather than acting the instant a pattern completes.

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