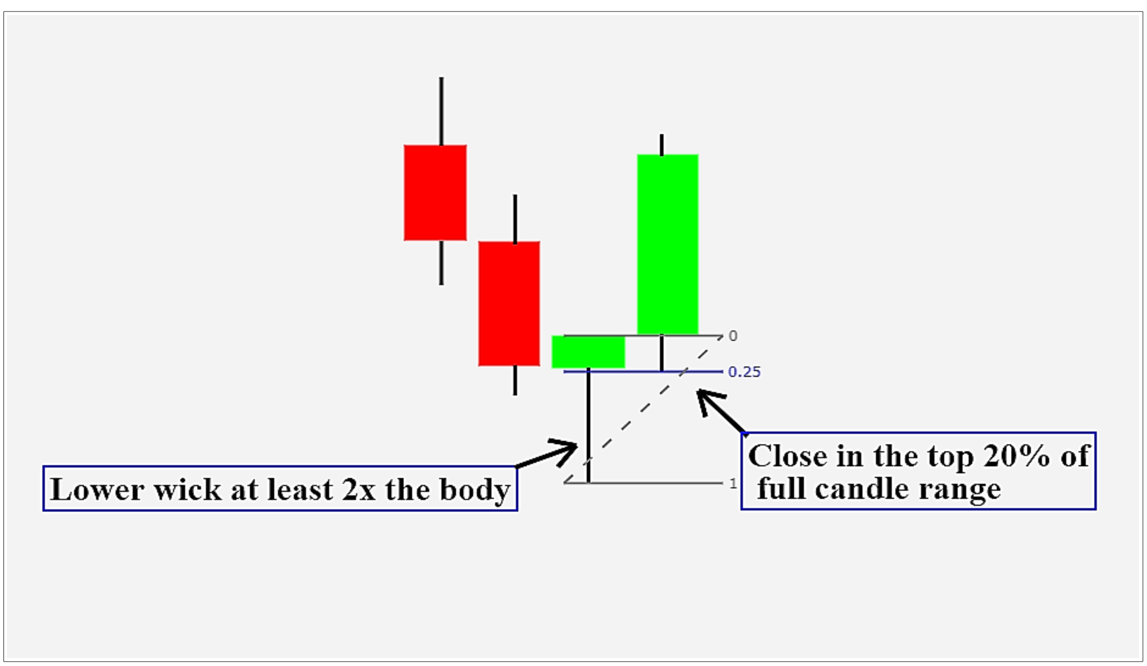
The Three Best Candlestick Patterns in Forex Trading

Introduction:

Firstly, It is very important to remember that candlestick patterns are only one part of a trading strategy and that a trading strategy is only one part of a trading plan. In this summary, you will learn my three favorite Forex candlestick patterns. These patterns mean very little on their own, but when combined with other analysis and market conditions, they can integrate really well with a trading strategy. Lets get started!

Hammer & Shooting star candlestick



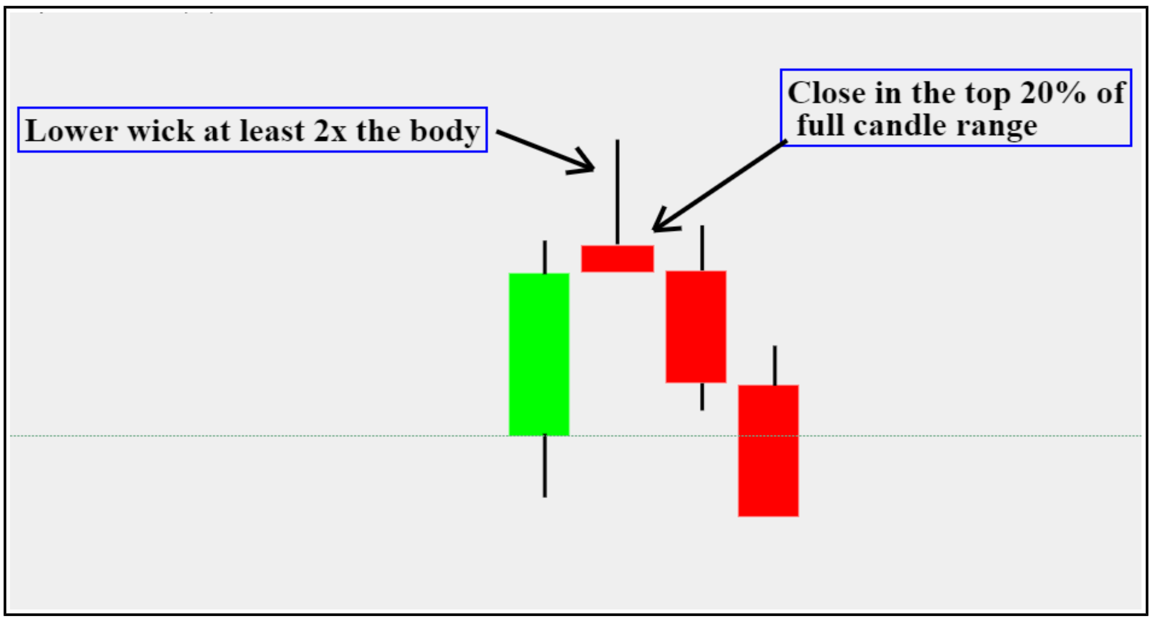
The Hammer candle is the bullish form of this pattern. The hammer candle is a bullish indication that a particular market may be ready for a move higher.

Rules: The hammer candle consists of a long wick on the bottom. This wick indicates buying pressure. For the hammer candle, I like to see a wick that is 2x as long as the body of the candle and a close that is in the top 25% of the total candle range from low to high. The candle body can be green or red, but green is a better indication. Check the illustration for more detail.

How to trade the Hammer candle: This candle is best used when the market has been in a downtrend after a bearish candle. All candlestick patterns are best used with other market conditions and indications. Such as, at previous points of support or resistance. Or, only when the RSI indicator is oversold/overbought and with various other market conditions.

Shooting Star candlestick

The shooting star candle is a bearish candlestick signal. The candle is an indication that a particular market may be ready for a move lower.

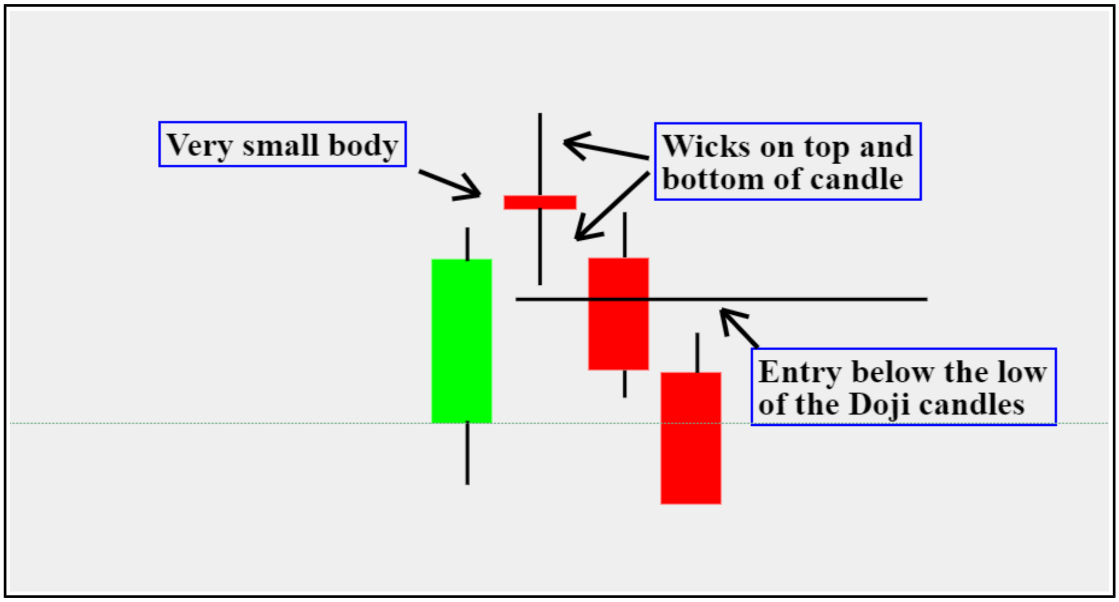


Rules: The shooting star candle consists of a long wick on the top. This wick indicates selling pressure. For the shooting star candle, I like to see a wick that is 2x as long as the body of the candle and a close that is in the bottom 25% of the total candle range from high to low. The candle body can be green or red, red is a better indication. Check the illustration for more detail.

How to trade the shooting star candle: This candlestick pattern is most useful after an uptrend and following a bullish candle. All candlestick patterns are best used with other market conditions and indications. Such as, at previous points of support or resistance. Or, only when the RSI indicator is oversold/overbought and with various other market conditions.

The Doji Candlestick

The doji candle indicates a period of indecision in the market. This candlestick alone has little meaning and will appear often on any particular market, but when combined with other market conditions or indicators, it can be a good signal of a breakout brewing. For this candlestick pattern, it is best to wait for the market to break above the high/low of the doji candle.

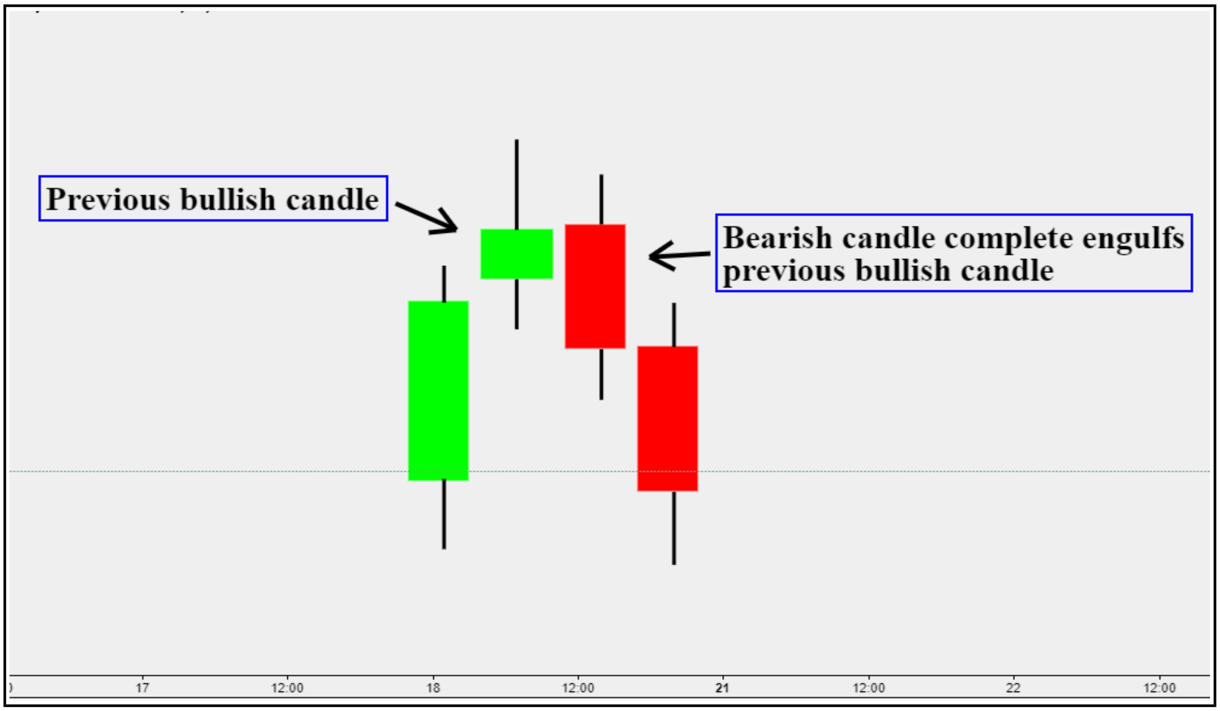


Rules: The candle consists of a small body and a wick on both the top and the bottom of the candle. There are a few different variations of this type of candle. To simplify this, I have created the rule that, as long as a wick excists on both the top and bottom of the candle and the candle has a small body, then it qualifies as a doji candlestick pattern.

How to trade the Doji candle: This type of pattern is also useful at the top of an uptrend or the bottom of a downtrend. The doji can also indicate trend continuation, if it appears after a retracement. My favorite way to use this candlestick as an entry is to wait for the doji candle and then place an entry above/below the high/low of the candle by a certain number of pips, or wait for a close above/below the high/low of the doji candle.

The Engulfing Candlestick

The Engulfing candlestick can indicate a reversal after an up or down trend, or a trend continuation signal after a pullback/retracement. This candle consists of a Bullish/Bearish candle that completely engulfs the body of the previous candle. The previous candle must be the opposite color of the engulfing candle.



Rules: Bullish engulfing – Green (bullish) candle that completely engulfs the body of a previous smaller red (bearish candle). Bearish engulfing – (illustrated above) Red (bearish candle) that completely engulfs the body of a previous Green (bullish candle).

How to trade the engulfing candle: The engulfing candle often comes at the top of an uptrend or the bottom of a downtrend. For this reason, it is a good idea to use this formation after a long trending period, possibly when the market is in an overbought or oversold condition. For this candlestick pattern, there are a couple of different way to enter the market. First, you can place an entry at the close of the engulfing candle, or second, you could wait for the close of the engulfing candle and then wait for price action to break the low/high of that candle.

Conclusion

As explained in the introduction, remember that these formations mean very little by themselves. They are best used with other forms of confluence, like market conditions and indicators for best results. These formations are best used as a part of a rules based strategy and that strategy should be a part of a full trading plan. I hope this article has brought value to your trading. If you need help creating a strategy or trading plan then send me an email at steven@thetradingchannel.net and/or visit www.thetradingchannel.net