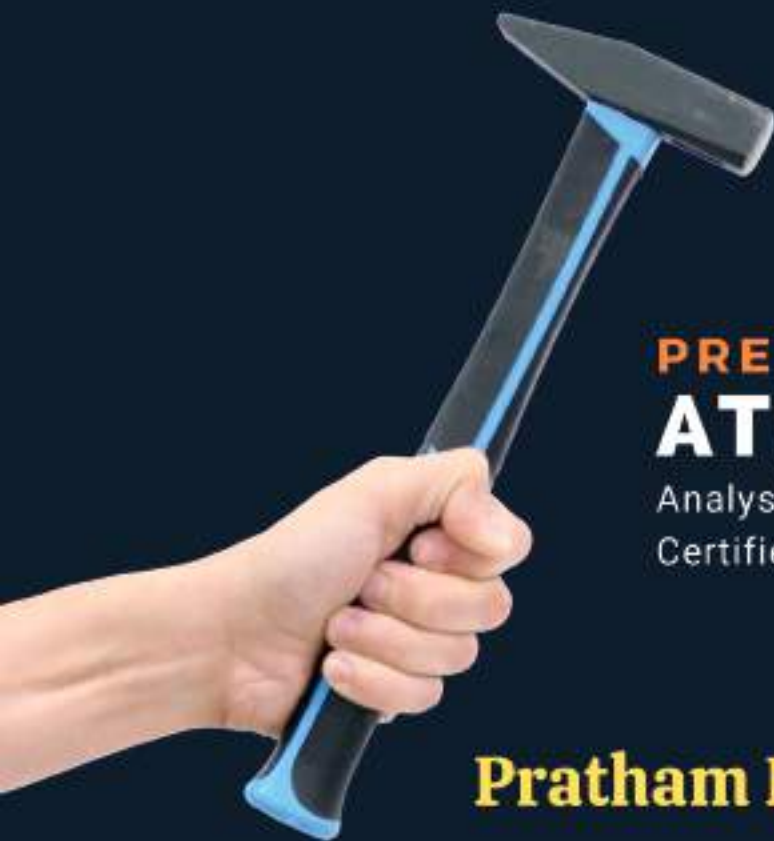


TECHNICAL ANALYSIS SIMPLIFIED

A Beginners Guide to
**HAMMER
CANDLESTICK**



PREPARED BY:
ATUL SHINDE

Analyst, Global Market Expert and
Certified Investment Adviser

Pratham Investment Managers

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A handwritten signature in black ink, reading 'Atul Shinde'. The signature is fluid and cursive, with a large, sweeping 'A' and 'S'.

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Simplified

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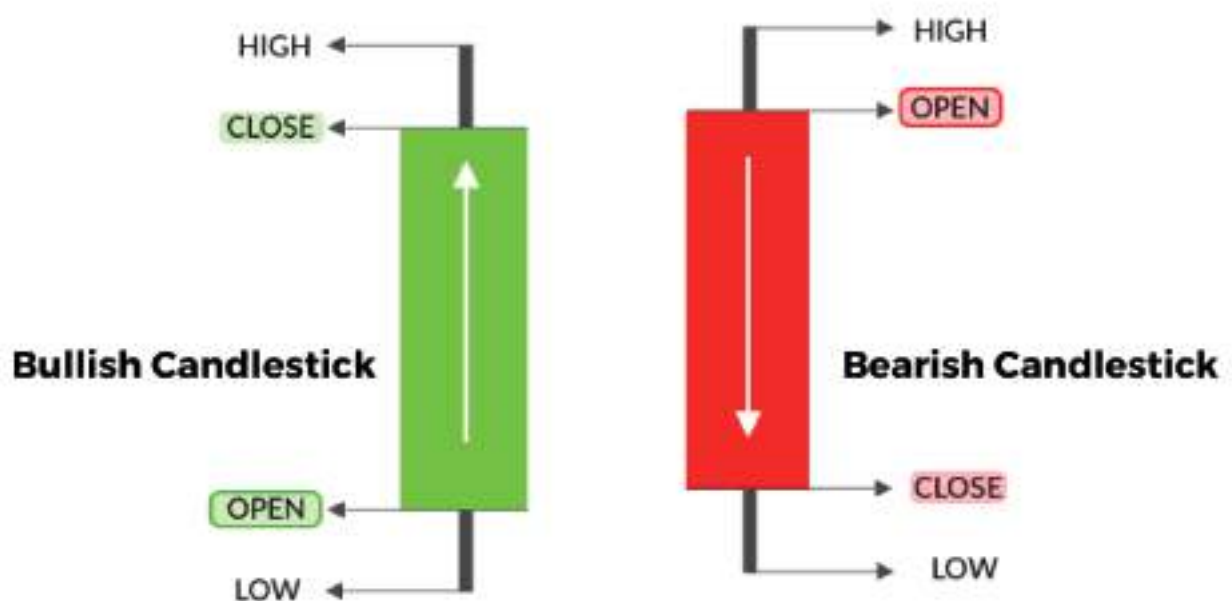
CANDLESTICK CHARTS

Candlestick Charts are More Popular among traders due to their looks as the Charts Look Very Attractive and Easy to Read because of their Colourful Nature.

One aspect of Technical Analysis is reading Candlestick Charts. Candlestick charts are a basic chart format that is comprised of "Candles". Each candle is represented by a Body and Two Shadows: Top and Bottom.

The top shadow indicates the highest daily trade price, the bottom shadow indicates the lowest daily trade price and the body indicates the open and close prices

Let's have a Look at a Candle Structure....



THE STRUCTURE OF CANDLES

Each Candle Conveys four pieces of information :

1. Open Price
2. Close Price
3. High Price &
4. Low Price

Candles refer to that information for a specific unit of time. For instance, If the Chart is a Daily Chart; each candle represents one day. And Thus, Each Candle constitutes Open, High, Low & Close price for the day.

If the Candle is Bullish, it is Normally shown in Green Colour.
If it is Bearish then the Colour will be Red.

Price Action traders rely on Candlesticks because they convey a great deal of information about each trading period in a visual format that is easy to interpret, allowing traders to compare the behaviour of price in different time periods with a quick glance at a chart. The Candlesticks Communicate the "Market Sentiment" : whether (and to what extent) bears or bulls were in control, and how far traders managed to push price in both directions.

Let's see What are the Types of Candlesticks Patterns in the Next topic.



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TYPES OF CANDLESTICK PATTERNS

Candlestick Patterns are Classified with the Number of Candles required to complete the Patterns, it does not necessarily mean a specific type for Bullish or Bearish Pattern.

There are Mainly 3 different types considered in Candlestick Patterns

1) Single Candle Patterns :

As The Name Suggests, These Patterns need a Single Candle to Complete the Pattern. There are many Patterns in this Type including Bullish and Bearish Patterns.

2) Double Candle Patterns :

As The Name Suggests, These Patterns Need Two Candles to Complete the Pattern, There are many Patterns in this Type including Bullish and Bearish Patterns,

3) Three Candle Patterns :

As the Name Suggests, These Patterns Need Three Candles to Complete the Pattern, There are many Patterns in this type including Bullish and Bearish Patterns.

4) Multiple Candle Patterns :

In these Patterns, We need More than Three Candles in the Pattern Formation or to complete the Pattern, There are a few Patterns in this Category and they include Bullish as well as Bearish Patterns.

In this Booklet, We Will be Discussing a Single Pattern...
For detailed course on Candlesticks, Please Communicate on the Details given at the end of the Book.



HAMMER CANDLESTICK

The HAMMER Candlestick Pattern is one of the most powerful trading strategies being used in Market.

The Formation is a SINGLE CANDLE Formation. It Signals a Change in Market's sentiment as the Balance shifts from the Bearish to a Bullish Movement. The Hammer is a Bullish Reversal Candlestick Formation.

In this Booklet, We will be Learning the Structure of the Hammer Candle, It's Advantages and Limitations or We may Call it as Strengths and Weaknesses. We will be Learning How to Trade with the Hammer Candle and Get benefit from it.

The hammer candlestick appears at the bottom of a down trend and signals a bullish reversal. The hammer candle has a small body, little to no upper wick, and a long lower wick - resembling a 'Hammer'. This is a Technical Text Book Definition of the Hammer Candlestick Pattern.

I would like to Add to this, Hammer is Normally Found Near Support or Near Resistance in any Chart, Whenever there is a Possibility of Reversal.

The Hammer Pattern is Normally Called a PAPER UMBRELLA By a Few Analysts. The Reason is it indicates a Trend Reversal and Appears Near Top or Bottom of the Chart (Near Support or Resistance)

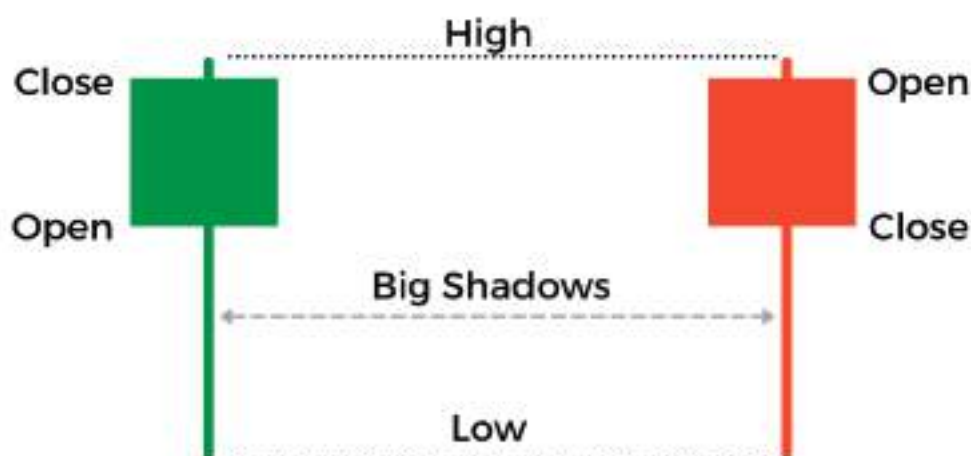
Let's See the Construction of a Hammer Candlestick

STRUCTURE OF A HAMMER CANDLESTICK

The Hammer (Paper Umbrella)

The Hammer Pattern is Shown in Below Image, The Candlestick with a Small Body and The Shadow of Minimum Double the Size of the Body, The Body is Normally Placed at the Higher area of the Candlestick, formed in Such a Way that either there is No or a Very Small Shadow or Wick at the Top of the Candle.

There are Few Types of Hammer, which we will be Discussing in later Part of the Booklet



Looking Similar to a Real Hammer ??

FORMATION OF HAMMER

Formation of The Hammer (Paper Umbrella) Shows us the Psychological Behaviour of Traders / Investors. Normally A Hammer is Considered as a Bullish Reversal Patterns that Occurs after a Downtrend comes to end.

Looking at the Picture Above you may have understood the Hammer can be recognised by looking at the Candlestick.

- The Candle is Having a Very Small or No Upper Shadow.
- The Body Part of the Candle is Normally at the Top Part of the Candle.
- The Lower Shadow is about 2 to 3 times the length of the Body.

What you Understand with the Construction of the Hammer Candlestick ..

- The candle opens at a certain price. As the prevailing trend is bearish, the risk is still to the downside for the current session.
- Thus, the sellers force the price action lower to create a low that is usually the fresh short-term low i.e. the price printed lower levels compared to the most recent sessions.
- However, unlike in the other sessions, the bears weren't able to secure a close near the lows, which is seen as a weakness.
- Finally, this opportunity is seized by the bulls who, despite the new low, press the price action higher to force a closing price that is near the opening and the highest price.

FORMATION OF HAMMER

In Short, Hammer is Formed when Price is Rejected and Pushed higher at the lows, so Normally Traders and Analysts Consider it as a Bullish Candle and a Bullish Reversal Pattern.

Hence, the message conveyed by a hammer is that despite major efforts from the 'sellers' side to push the asset's price further lower, the 'buyers' were able to change the balance to their advantage, which is considered a major bullish development.

It is "HAMMERED" on Retail Traders Mind that whenever you see a Hammer, Just Go Long... But it is Not the Fact. There are many things you must consider before entering the trade with any Candlestick Formation.

FORMATION OF HAMMER

If We Look Closely at the Formation of a Hammer Pattern, Just Remember the Process Mentioned above, how Bulls Step in a Push Price Higher.

Have you Wondered anytime watching Hammer on a Chart at Higher Timeframe, is it Really a Reversal Formation or Just a Price retracement on Smaller Timeframe Chart ?

Usually The Hammer is a retracement play on the lower timeframe.

Is it OK to Take a Trade Immediately on Spotting a Hammer ?

No, Absolutely Not.. It will be a Mistake.

Hammer Needs to be Formed at a Particular Level or with some conditions then Only It will be a Powerful tool for Trade.

Whenever we are Looking at a Trend, The trend Normally involves a Large number of Candles involved in forming a trend. Do you really thinks a Small Candle Like Hammer Can Really Change the Trend ?



This is a Chart of Reliance Industries on Daily Timeframe. The Hammer Failed to Deliver Expected Results here, So What is the Significance of the Formation and What can we expect from it ?

FORMATION OF HAMMER

Most of the Traders and Analysts are trapped in Such Kind of Analysis which is based on primarily lack of in-depth knowledge of Market Behaviour, Traders Psychology and Practical Knowledge. The Situation can be avoided with the help of a Proper understanding of concepts and the process behind the formation of Such Patterns.



The Hammer (Bullish Reversal pattern) Will Work Successfully if it is Followed with a Broader view and Analysis. For the Success of the Patterns, Looking at the Single Candle is Not Enough.

For any Kind of Formation or a Pattern, Just Refer to Broader Market trend whether it is an uptrend, downtrend, sideways trend, Also check if the Stock or the Instrument under watch is in Strong Momentum. if The trend is Downtrend and the Momentum is strong, then Even the Hammer won't work and Will not help in Trend Reversal.

So you may be Wondering, if this is true, then why the hell no trainer or Analyst is talking about it. Why do they refer to the Candle only ?

For Any Candlestick Pattern or any Formation on Chart, there is an Appropriate Place and if it happens on that place then and then only it Works Successfully.

Want to Know about It ??

Keep Reading Carefully in Next Chapter...

(If you Want to Learn from the Author, Just Ask for the Next Course Dates and go For it)

HOW IT WORKS ?

So, What are the Factors That a Trader should be Looking for a Successful Trade with a Candlestick Formation ? (In this Case, We will consider it to be a Hammer)

Any of the Candlestick formation won't work Successfully if it is seen at a Wrong Place.

What would you look for before taking the trade with a candlestick formation ?

1) First and Most Important thing you have to Check is the Major Trend. I always tell my students and Trading Members to follow One rule in trading that is "Trade with the Trend" i.e. Always trade in the Direction of the trend, Never go against the trend.

What are the benefits of trading with the Trend ?

it will Reduce your Risk of going Wrong, Increases Probability of Winning trades.

2) Second thing to Watch Out After Major trend is Important zone of Demand and Supply.

- The Demand and Supply zone, is the area where there is always a Buying / Selling Pressure.
- Finding trade setups in this zone helps you enter the Trade with a Favourable Risk : Reward Setup.
- It Increases your Winning Probability as the Potential Buying / Selling Pressure helps to Push the Price in your Trade's Direction increasing your Probability of Winning.

HOW IT WORKS ?

- It Reduces The Risk of Stoploss Hunting as the Demand / Supply Pressure doesn't allow market to Cross Certain levels.

3) Third Thing to Watch Out For is a Better Entry Trigger.

Once We Watch out for the First two things and identify the Probable area of Trading, Next Most Important thing is to Find a Better Trigger which will motivate you to Enter the Trade.

As we are learning About Hammer Candlestick Pattern, I will Discuss only about The Hammer.

In this Case, as we have Identified the Trade Situation, We will Find out if there is any Bullish reversal Pattern Like Hammer is formed and it gives you confirmation of Reversal.

Once you get everything as Planned and the Setup fulfils all your conditions, You may initiate the Trade and Be Assured, your Trade will be a Winning Trade with Lowest Risk and Best Reward.

The Conclusive Part of The Trade Setup and Entry is :

- 1) Find Major Trend
 - 2) Find Major Demand and Supply Zone.
 - 3) Find the Entry Trigger.
 - 4) Find Confirmation of the Pattern Breakout
- and Then Enter the Trade with a Good Risk : Reward ratio.



TRADE SETUP ?

After Finding The Trade Opportunity, What will be your Trading Decision and How Will You Implement it ?

Whenever I Find The Hammer Candlestick Pattern, I will Check Few things on Fast Track ..

1. Major Trend and Possibility of Reversal
2. Major Demand and Supply zone Nearby
3. Formation of Candlestick pattern
4. Confirmation of trade Entry
5. Define Stoploss
6. Enter the Trade and Let it Run patiently
7. Exit if there is a Major Demand / Supply zone or a Reversal Pattern Develops.



We will Discuss the Trade structure in Next Chapters of the Booklet, Better to Discuss some More Important topics before going to Trade.

We have to Check the Reliability of The Hammer Candlestick pattern and we Must also Learn Different Type of Hammers also.

ADVANTAGES & LIMITATIONS

➡ ADVANTAGES OF THE HAMMER CANDLESTICK PATTERN

Reversal Signal : When this Candlestick Pattern is found at an appropriate location on a chart in Down Trend, it may mean a Pause or Shift in the Trend or End of the Existing Trend.

The Hammer is Considered as a Bullish Reversal Candlestick Pattern

Exit Signal : It may be considered as an Exit Signal if the traders are holding Short Positions in the Downtrend. The Hammer is Considered as an Exhaustion of the Selling Pressure.

➡ DISADVANTAGES OF THE HAMMER CANDLESTICK PATTERN

No Indication of Trend : The Hammer Candle does not take the trend into consideration and can be formed anywhere in the chart. Therefore, When considered in isolation, can provide a false signal.

No Target : The Hammer is Just a Reversal Pattern and it never provides the target of the move. we have to follow different parameters to define the Target area for the move.

Confirmation/ Support Needed : In Order to Enter a High probability trade using the Hammer Candlestick, the traders must consider multiple parameters and confirmation by following candles. The traders must look for additional information on chart like support areas, pivot points, Significant Fibonacci levels, etc.

PREREQUISITES :

What to Look for Before a Hammer Candlestick

- 1) The Trend is a Bearish Trend or a Consolidation
- 2) If We are Considering a Down Trend before Hammer Formation, it Means Markets are Opening Near Close of Previous day and Closing Below Previous Close Significantly.
- 3) In Case of Consolidation, Markets are expected to Trade Lower near the Support of the Consolidation zone.
- 4) When the Hammer is Formed Market Forms a Fresh Low in the Same timeframe.
- 5) On the Charts, One Must Look for Supports near the Low of the Hammer, Support may be in the form of any of the following
 - Price is trading Above Immediate Support, touched support and forming a Hammer
 - Price is taking Support on a Very important Fibonacci retracement levels.
 - Price is taking Support on a Popular Moving Average
 - Price is taking Support on a Pivot Point.
 - If the Hammer Forms, It may be supported by Some Strength Indicators Like CCI, RSI, Stochastics, etc.

Combining Readings of all these things and a Bullish Candle After the Hammer Formation May give you the confirmation of Reversal in Trend on an Indication of coming upside.

TYPES OF A HAMMER CANDLESTICK

THERE ARE DIFFERENT TYPES OF HAMMERS SEEN ON CHART,

All The Types of Hammers are Known by Different Types.

- 1) The Hammer
- 2) Inverted Hammer
- 3) Hanging Man
- 4) Shooting Star

We will See The Types of Hammer One By One ..



Hammer

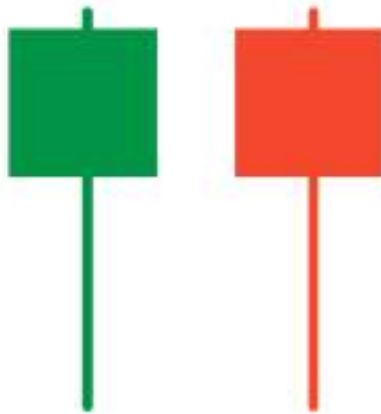
- It is a Bullish Reversal Pattern
- Found in a Downtrend, at the bottom
- May be of Any Colour Green or Red



Inverted Hammer

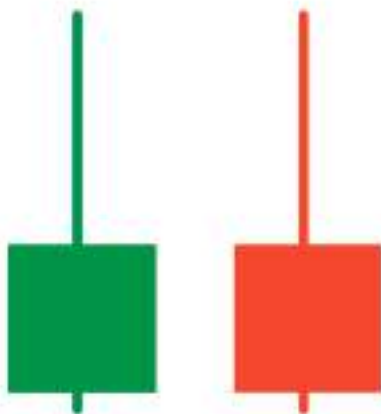
- It is a Bullish Reversal Pattern
- Found in a Downtrend, at the bottom
- May be of Any Colour Green or Red

TYPES OF HAMMER



Hanging Man

- It is a Bearish Reversal Pattern
- Found in a Uptrend, at the TOP
- May be of Any Colour Green or Red



Shooting Star

- It is a Bearish Reversal Pattern
- Found in a Uptrend, at the TOP
- May be of Any Colour Green or Red

New Traders or traders who are looking at Charts and Technical Analysis for the First Time may be thinking, what kind of a Analyst this man is, All the patterns are Looking Same, Then Why the Hell are these different names for the Same Candles ? Either this Man is Crazy or may be he is fooling us.

Don't Look at the Formation Structure, Look at the Location of these Formations.. Their names Change Only due to the difference in their location, or their appearance on chart.

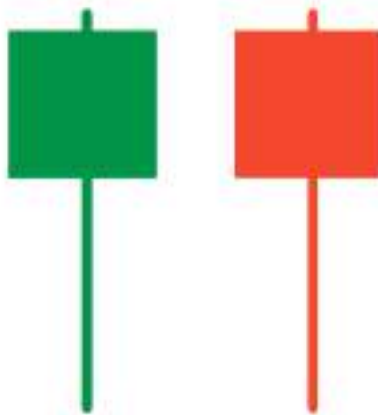
UNDERSTANDING

Types of

HAMMER

CANDLESTICK





- It is a Bullish Reversal Pattern
- Found in a Downtrend, at the bottom
- May be of Any Colour Green or Red

Hammer is a Candlestick Pattern which normally occurs at the Bottom of the downtrend as per Experts and Analysts, We have learnt the Candle formation, candle structure and everything in earlier sections of the Booklet.

Hammer can be of Any colour as long as it Fulfils the criteria of the Body Height and Candle Height Ratio. Normally Bullish Candle with green or Blue colour is traders favourite. The Candle formation pattern needs to be flexible.

We have seen the Prerequisites for Hammer Formation in Earlier Chapter.

As per the Prerequisites here are few images to understand the Prior Trend.



HAMMER

in the above image we see a down trend followed by a Hammer and Trend Reversal resulting into uptrend immediately after the Hammer is Formed. Though this is a Actual Chart Image of a Stock, This Scenario is very Difficult to find and it may be seen after a Big period once in a while.

Now Let's See how the Same Pattern Actually Appears in Practical markets and that too regularly. But For that you must Remember the Rule, The Hammer Candlestick will be seen at the Bottom or any Significant Demand Zone or we may say in Simple Terms; Hammer Can Appear with Similar Strength in a Rising Trend at important Supports and it gives strength to the Rising Trend.

Let's See the Image for More clarity :



The Image gives us the idea of how and where we can find the Hammer Candlesticks and How it Supports the Direction of the Trend.

In this Case hammer is not Formed at the Bottom but it Appears on Rising Trendline Support and the Horizontal Support giving Strength to the Rising Trend. The Hammer Appears on Bottom Only is a Half Truth, The Hammer may appear anywhere in the Chart, but it is Significant only in case of it's formation on a Strong Demand Zone and Important Supports on Chart.

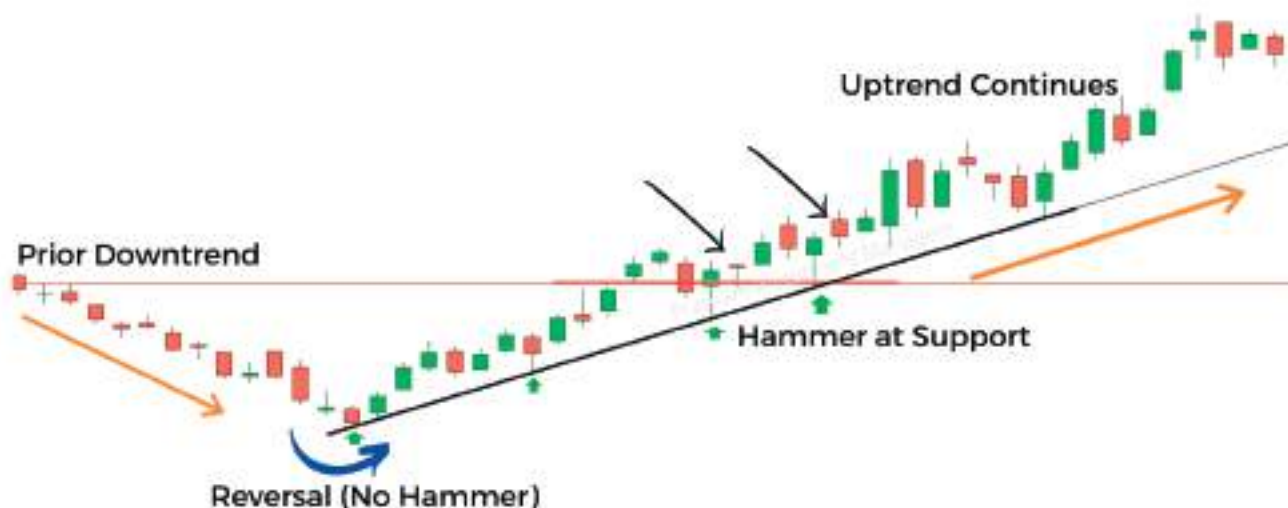
This Image Demonstrates the Appearance and it's Significance in chart. The Pattern emerges when Bulls jump in to Avoid more damage to price at important Supports or at important Demand Zones.

HAMMER

We need More Confirmation for the Hammer to be Significantly Important to Take Trading Decisions based on the Candle.

The Confirmation is Normally with the Next candle Giving a Bullish Move or a Move above the High of the Hammer Candle. By closing above the closing Price of the Hammer, Bulls Show Their Strength loudly telling Bears that they are here and Dominating the price move at the time so Bears should stay away for some time.

The Confirmation candle Needs a Candle Close above the Closing Price of the Hammer Candle, the Candle After hammer may be any colour candle with Green or Red body, The closing is Important and should be above the closing Price of the Hammer Candle. One More Important thing, The Low of Next Candles should not breach the lows of the Hammer, it will be indication of failure of Bulls strength. in the Below image, confirmation candle is a Red candle having close above the The closing Price of the Hammer Candle/



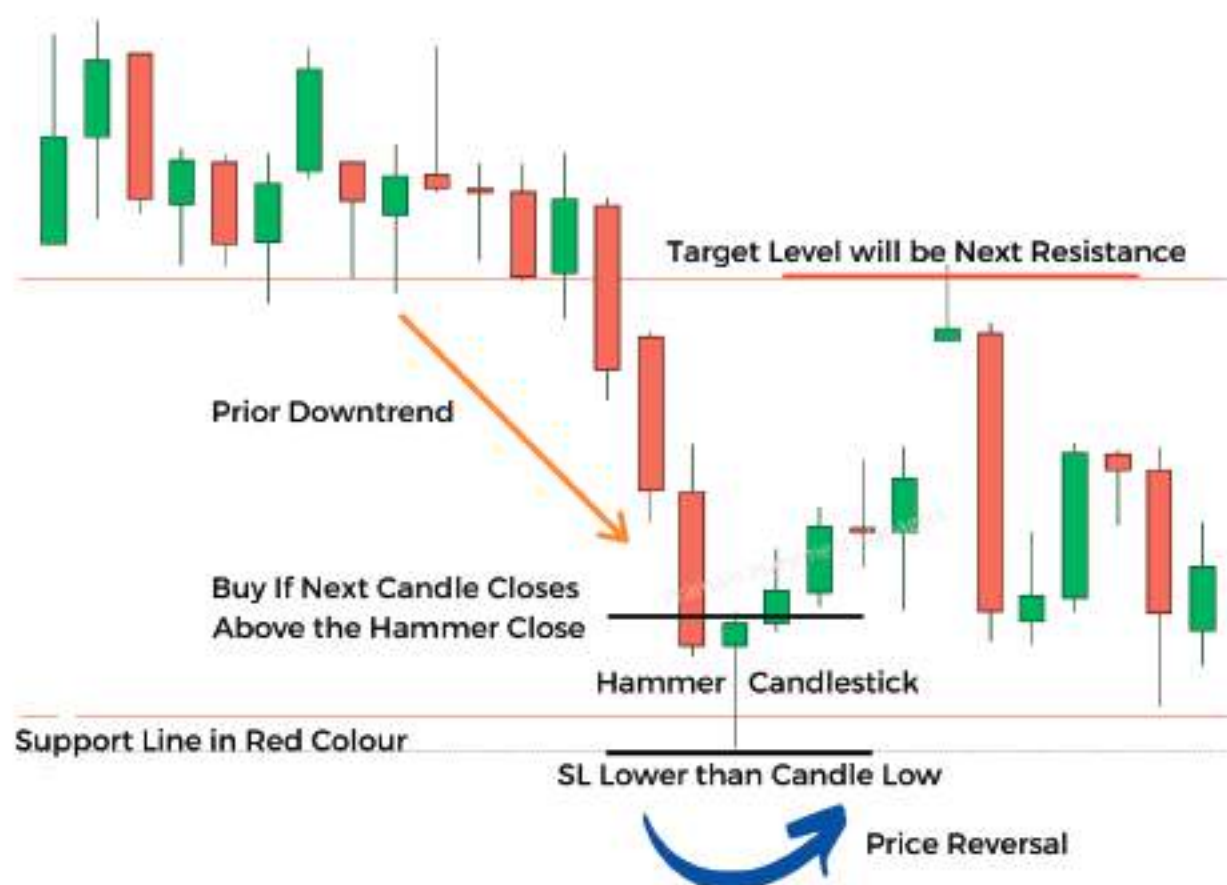
If the Next Candle Starts and makes a Low around the Body of the Hammer Candle, it will be a show of connectivity and strength of Bulls. It means the move is Well Handled by the Bulls and is well Planned, they give opportunity to all those who are still left out and then Start moving ahead.

HAMMER

So, We have Washed out the misconception that Hammers are useful only if they appear on the Bottom of the Chart. They may appear anywhere in the Chart, but those appearing at the Bottom and at Important Supports or Demand Zones will be the Ones that we need to Focus on.

Trading The HAMMER CANDLESTICK Pattern :

Now it's Obvious that you are Planning to Take a Trade based on your Learning at this Stage and Want to Understand how to Enter the Trade. Let's See and Understand with a Simple Image Format, It will Help you ease your trading decisions.



HAMMER

The Actual Trade in an Indian Stock, shown in the Image. We See a Prior Down Trend in this Chart where Price Falling to Stop at a Support, Where a Fresh Low is done and then Bulls Emerge to Take control and Push Price all the way up to close near High of the Candle. Which forms a Hammer. Till Now we have Completed 2 Conditions..

1) Prior Trend is Down Trend

2) Hammer is Formed Near the Support Levels.

After The Hammer Formation our 3rd Condition is also fulfilled

3) A Bullish Candle Closing Above the closing Price of hammer.

Once Price Crosses High of the Candle, We may Plan Our trade and When Then Bullish Candle closes above the high of the Hammer, We Enter Longs.

in the Case of Longs Initiated with hammer Formations, The Stoploss is always below the Low of the Hammer Candle. So As per the Rule, We have Placed the Stoploss Below the Low of the Hammer and then hold the trade.

In Case of Trades Based on Hammer, Normally Targets are Placed at Next Important Resistance levels or a Next Bearish Reversal Pattern.

Here in the Above Chart, We are Getting a Strong Resistance, Which Actually Worked as a Support Before Price Actually started falling. The Same Resistance will play important role in our target Decisions. So in this case We have Placed Our Take Profit Orders or Closing Orders Just below the Resistance Level.

After creating 3 candles above the breakout zone, Price Suddenly Shot up and Hit the resistance area and Immediately Started Correcting. Bulls Lost Control after making a New high and Bears Took control Pushing the Price Down and Near the lows of the Candle, it's a Clear indication of Profit Booking By Bulls.

So Now you know the Complete Trade Setup using Hammer Candlestick.

These Patterns Deliver 60-70% Success Ration in Normal Trading Days, So it's enough for any traders to consider these formations as a Simplest Key point in deciding the trades.

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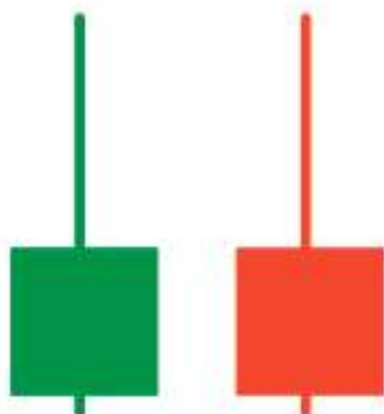
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2

INVERTED HAMMER



- It is a Bullish Reversal Pattern
- Found in a Downtrend, at the bottom
- May be of Any Colour Green or Red

Inverted Hammer is a Candlestick Pattern which normally occurs at the Bottom of the downtrend as per Experts and Analysts, Inverted hammer is Normally a Case of Tired Bears near the Support. In Simple Terms, Prior trend is a Bearish Trend and bears are in Full Control till Support arrives. At Support, Bears again Try to Push Price Further on Lower Direction but Bulls try to step in and Push Price all the way towards a new High. Somehow bears again push and manage to close near the lows but still it is a effort which is against the force of bulls for protection of bears control. Bulls may have lost the battle for time being but they are ready to step in and take control again. in the Next Candle they will try to Open with a Gap up and Carry the Candle to close higher giving us a clear indication of strength of Bulls and change in direction of the trend.

Inverted Hammer can be of Any colour as long as it Fulfils the criteria of the Body Height and Candle Height Ratio. Normally Bullish Candle with green or Blue colour is traders favourite. The Candle formation pattern needs to be flexible.

We have seen the Prerequisites for Hammer Formation in Earlier Chapter. The prerequisites for Inverted Hammer are Similar to that of Hammer.

As per the Prerequisites here are few images to understand the Prior Trend.

INVERTED HAMMER



in the above image we see a down trend followed by a Inverted Hammer and Trend Reversal resulting into uptrend immediately after the Inverted Hammer is Formed. Though this is a Actual Chart Image of Nifty50 Index, The Inverted Hammer is formed on 19/02/2019. This formation is Difficult to find and it may be seen after a Big period once in a while. On S&P 500 Index, this Pattern is Seen merely 0.40% times in last 20 years.

Now We will see the Chart for the same formation on a Longer scale, so we may be able to understand the formation without any doubts, it will help you understand the importance of this Candle and the results of this formation.

Let's See the Image for More clarity :



INVERTED HAMMER

The Chart on Previous Page is of Nifty50 (spot) on Daily timeframe and the Period is 2019 Jan to 2019 Apr. We may See the Nifty50 Index was in a Consolidation zone for a Longer Period. In this Case Prior Trend is a Small Downtrend and On Longer timeframe it's a consolidation zone. The Inverted hammer gives Trend Reversal and Price starts moving higher after the confirmation by Very Next Candle. Looking at the Structure, One can understand, the formation may be on a Smaller scale downtrend or a bottom of the consolidation zone.

The Prerequisite was a Prior Downtrend, it may be a consolidation zone also and the Very Important Part we must remember is Inverted Hammer Should Appear on Supports to be more successful followed by a Bullish Candle closing above the range of Inverted Hammer Candle.

Prior Downtrend should be atleast 5-6 Candles before the formation of Inverted Hammer.

One Important thing to remember, the Next Candle after formation should not breach the low of Inverted hammer.

The Next Candle, if starts near the Body of the Inverted Candle, it is a Strong indication of connectivity, planning and strength of the Bulls.

So, I hope you are now very clear about the Formation, behaviour and significance of the Inverted Hammer Formation.

Let's See the Trade Details.

INVERTED HAMMER

Trading The Inverted HAMMER CANDLESTICK Pattern :

Now it's Obvious that you are Planning to Take a Trade based on your Learning at this Stage and Want to Understand how to Enter the Trade. Let's See and Understand with a Simple Image Format, It will Help you ease your trading decisions.



This is a Real Chart of Nifty 50 Index on Daily Timeframe and The Date of Formation is 19/02/2019, We See a Prior Down Trend in the Index for a Small Period Price Started falling once it breached the resistance turned Support on the Downside and moved towards next Support. At Support a Fresh Low is Formed, Then bulls Entered to push Price higher but Failed to hold and Price reversed near the Open area forming a Inverted hammer in the process. So we have Completed 2 Conditions..

Prior Trend is Down Trend (Consolidation Zone in this Case)

Inverted Hammer is Formed exactly at the Support

Now 3rd Condition is Next Candle Must be a Bullish Candle breaking the High of the Inverted hammer at closing. We may plan our Trade once Candle Closes above the High of the hammer.

INVERTED HAMMER

In case of Longs initiated with Inverted Hammer Formation, The Stoploss is always below the Low of the Inverted Hammer Candle. So As per the Rule, We have Placed the Stoploss Below the Low of the Hammer and then Hold the Trade.

On this Nifty Chart, We are Actually Working with the Consolidation Channel High and Lows as the Resistance and Support respectively. The Strong Resistance line Marked in Red on the Chart is considered our Target.

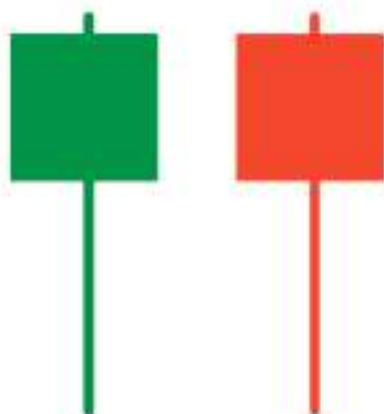
After Breakout the Index Actually Moved Higher in ups and Downs forming a Rising Channel and Helping us Identify the Uptrend. After Few Ups and downs Price Finally Moved Higher and Touched Our Targets at last Closing The Candle Exactly above the Resistance area.

In this Case Bulls are Working Strong and they Pushed the Price into the Open area to breakout from the Consolidation move and The Price Rallied Strong to higher Levels.

Nifty here in this Trade Created Inverted hammer at the Support of 10586 and the Breakout Candle Closed around 10736 on 20th Feb 2019, Hammer High was 10723. So Our Longs Were Initiated Near Closing time of the Breakout Candle. Stoploss in this case was Below Low of the Inverted Hammer, Low of Inverted Hammer was at 10586, So We may Consider Stoploss at 10570, lower by 16 Points. The Target was Resistance Line placed at 10984. For Safer Closure of the trade, One Can keep the Book Profit Orders at 10980. The Targets Orders were Triggered on 05th March 2019. It was a 9 Days Holding Period. The gain in this Trade was 250 Points of Nifty.

I hope you have Understood the Trade and the Setup using Inverted Hammer.

These Patterns deliver 60-70% Success Ratio in Normal Trading days, So if you are Looking at the Topic understand the Risk, Reward and Trade according to your Risk Appetite. Do not Over Leverage positions anticipating Bigger returns in shorter term.



- It is a Bearish Reversal Pattern
- Found in a Uptrend, at the TOP
- May be of Any Colour Green or Red

A Hanging man Candlestick formation is Single Candle Formation which normally appears at the top of the Bullish trend or at the Resistance area. As Per Experts it gives indication of trend reversal and is successful 60-70% of times if all the conditions are met.

We Have Seen this Kind of Structure earlier which was called a Hammer and the Same Structure here is called a Hanging man.

you might be wondering what is the difference between these patterns.

The Most Important difference is their location.

Hammer Appears at the Bottom

Hanging Man Appears at the Top

Hammer Appears at the Support

Hanging Man Appears at the Top

Hammer Needs a Prior Downtrend

Hanging Man Needs a Prior Uptrend

Formation of Candle is a Similar thing of Hammer Candlestick, So I Will not repeat the part here again. But I will Show Image format to Ease understanding.

HANGING MAN



As Per the Image, We see Uptrend followed by a Hanging Man Formation at the top and a trend Reversal resulting into a Downtrend immediately after the Hanging Man formation appears on the Chart. This is a Actual Stock Chart and you may find many of Such incidents on the Chart near the Tops or near the Resistance lines giving some Pullback.

Do not be Confused and assume that a Hanging man means immediate downtrend starts. Understand the logic behind the formation and then you may understand, the experts always tell you half things. Never fall to half information or half knowledge.

Hanging Man may appear anywhere on the Chart, But Whenever it fits in our criteria or set of rules to follow, then only consider it to be a Valid Formation.

After Prior Requirements and Then the Candlestick formation, We need a Confirmation candle before taking the trade. 1) The Immediate Next Candle Must not break the high of the Hanging man Candle. 2) It must be closing below the low of the Hanging man Candle. These are the 2 important rules to consider the formation as a Hanging Man Formation.

A hanging Man can Appear with a Similar Strength in a Down trend, at a Trend Line Resistance or a important Supply zone.

HANGING MAN



As you may see, this is a Chart of a Currency Pair EUR/USD, it shows 2 Red Lines marked for Support and Resistance or a Supply and Demand area. Price Moves from Lows to the Resistance area and at the Resistance the Pair formed a Hanging Man Candle Formation. The Formation is done after a superb upside in a Short term, Once the Candle formed as a Hanging Man at the resistance, it completes the prerequisites for the pattern formation.

- 1) Prior trend is uptrend and
- 2) The Hanging Man is formed at the Resistance.

Third and Most important confirmation candle appears after the Hanging man Formation.

- 3) The Confirmation candle closed below the Low of the Hanging Man Candle and We See Price Falling towards the Support.

The formation appeared on a Sideways Move, so we may assume it works on any condition, just need to be on the Resistance and Supported by other candles.

let's see the Trade on Same Chart :

HANGING MAN

Trading The Hanging Man Pattern :



After a Long Uptrend, or a Considerable upside Price Reaches a Strong resistance line and We see a Hammer Like Structure Appearing on Chart. We Keep a Watch on the Happenings on this Particular pair and Timeframe for the good trade setup.

Once the Hammer Like Structure Completes, We understand, it may prove to be a Hanging Man at the Resistance, So we wait for the confirmation Candle.

Next Candle Opens where Price Closed on the Hanging Man Candle. The Price movement suggest weakness and Price is not able to cross the high of the Hanging man Candle. Bears Push further to get closing of the Candle below the low of the Hanging Man.

As soon as Price nears Closing time and is Trading below the low of the Hanging Man Candle, We Enter the Shorts with a Stoploss Slightly Above the High of the Hanging Man Candle and Wait for the price to Fall. We get more Confident as the Price is not able to cross the low of the Hanging Man with strength, it is working as a strong resistance now.

HANGING MAN

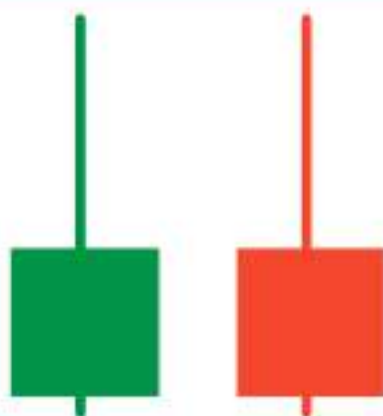
We May Enter Additional Shorts as soon as Price forms One More hanging Man Near the Resistance.

We are now more confident of price reaching the lower Supports as per our initial chart, so we wait for the Target and Place our Closing Orders slightly above the Lower Support levels. it Will Ensure the trade is closed without any issues.

We may see that the price hits the Target area and Our trade is Comfortably closed.

As We can see At the Lower Supports, Price forms a Similar Structure Hammer and Starts reversal again from lows. The Hammer is at Lows and at Supports. Hanging Man is at Tops and at Resistances.

Both the Structures are same and yet differ in work due to their area of appearance only. Took the specific Chart for the trade Explanation as it will easily show the difference and the Concepts are refined.



- It is a Bearish Reversal Pattern
- Found in a Uptrend, at the TOP
- May be of Any Colour Green or Red

A Shooting Star (Inverted Hammer at Top/Resistance) is a Candle which normally appears at the top or at a strong resistance. As per Text books and Experts it appears at the top and indicates the Bearish reversal in price. This Candle will normally show up at Top of the uptrend or after substantial upside move.

As We have Seen about the formation of the hammer and Inverted hammer Candlesticks and We know the Candle Structure of these candles, so I am not spending more time on discussing about it.

Particularly about Shooting Stars, I prefer the Longer shadows or wicks in these candles, they suggest the Sharpness of Action by bears. These Candle if Appear with a Gap up compared to Previous Candles, then they add the Spice !!

Shooting Stars can be of any colour as long as they fulfil the criteria of the candle structure. Traders Normally prefer Red Candle as they indicate strength of bears.

Prerequisites of the Formation are Known to all

- 1) Prior Trend needs to be a Strong uptrend
- 2) The Candle appears at the Resistance or at the top of the trend.

Let's see the Formation in Graphical Format for the Ease of your eyes, it will help you understand the formation easily.

SHOOTING STAR



As Per the Image, We see Uptrend followed by a Shooting Star Formation at the top, near the Resistance and a trend Reversal resulting into a Downtrend immediately after the Shooting Star formation appears on the Chart. This is a real Chart image and you may find many of Such incidents on the Chart near the Tops or near the Resistance lines giving some Pullback.

Do not be Confused and assume that a Shooting Star means immediate downtrend starts. Understand the complete process behind the formation and then you may understand, every Shooting star is not a Blind Reversal Game.

Shooting Star may appear near Resistances on the Chart, But Whenever it fits in our criteria or set of rules to follow, then only consider it to be a Valid Formation.

After Prior Requirements and Then the Candlestick formation, We need a Confirmation candle before taking the trade. Almost Same Rules as per Hanging Man Structure 1) The Immediate Next Candle Must not break the high of the Shooting Star Candle. 2) It must be closing below the low of the Shooting Star Candle. These are the 2 important rules to consider the formation as a Shooting Star Formation.

A Shooting Star can Appear with a Similar Strength in a Down trend, at a Trend Line Resistance or a important Supply zone.

SHOOTING STAR



As you may see, this is a Chart of a Currency Pair, it shows 1 Red Line marked for Strong Resistance or a Supply area. Price Moved Down Many times from the Resistance area and there are different formations near the Resistance line every time. First Hanging Man, then a Bearish Piercing Candle and Third Time a Shooting Star Formation at the same resistance level. The Shooting Star Formation is done after a superb upside in a Short term, the Candle moved with a gap up and a Shooting Star is formed at the resistance, it completes the prerequisites for the pattern formation.

- 1) Prior trend is uptrend and
- 2) The Shooting Star is formed at the Resistance.

Third and Most important confirmation candle appears after the Shooting Star Formation.

- 3) The Confirmation candle closed below the Low of the Shooting Star Candle and

We See Price Falling towards the Support.

The formation appeared on a Sideways Move, so we may assume it works on any condition, just need to be on the Resistance and Supported by other candles.

let's see the Trade on Same Chart :

SHOOTING STAR



For the Explanation of trade, I am using the same chart,

We may see a Strong Uptrend, Though the Price is moving in same range since long as per our Previous chart, but the range is Bigger, so we get feel of strong upmove in the same zone. This time Candles moving up are stronger and with gaps in between.

Once the Price Reaches the resistance area, The last candle gives a Gap up open, hits a High at the Resistance level and Starts falling. This shows you the perfection of these kind of patterns on chart. As expected the Candle appears with a gap up. after the candle closed as a Shooting Star, the Next Candle is again a bearish candle and with volatility it moves big, but refuses to touch the high of Shooting Star and Moves Long below the Shooting Star Lows.

As Most of the parameters show the strength of bears and price is near the Lows of the Shooting Star Candle, We may enter the trade near the Closing time of this Candle.

With Next Candle we may see Price falling with a Big gap down and Moves towards the Support area.

SHOOTING STAR

Now We need to Put a Take Profit Order or a Closing Order of the trade and a Stoploss of the trade.

Stoploss is always slightly above the High of the Shooting Star Candle.
Target is always Slightly Higher from the Support Level.

We Follow the trade and Wait for Either of the Stoploss or target to trigger. We May See the price Touches the Target area and Our trade Gets closed.

So this is All About the Trading With Shooting Star.

You may Find Opportunities Like this on Charts regularly, Keep the Eyes Open, mind Sharp and Follow rules of Trading. You will be Highly Successful in trading.

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SUMMARY TO REMEMBER

What We Learnt So Far :

- 1) Bullish Patterns : Hammer and Inverted Hammer
- 2) Bearish Patterns : Hanging Man and Shooting Star

Important Rules to Follow :

- 1) All 4 Formations May be of any Colour (Red & Green)
- 2) The rule of Body Size and Shadow size must be followed
- 3) Shadow Size (wick size) is always 2 to 3 times of body Size
- 4) Trade is Always taken if conditions of trade are fulfilled

Trade Conditions :

A) Hammer and Inverted Hammer

Prior Trend Must be Bearish
Candle Must Appear on Supports
May be Bottom of the Trend or Just a Strong Support
Both Are Bullish Reversal Candles
Confirmation Candles Must close above the high of the Candle.
Stoploss always Below the Low of the Candle.

B) Hanging Man and Shooting Star

Prior Trend Must be Bullish
Candle Must Appear on Resistance
May be Top of the Trend or Just a Strong Resistance
Both Are Bearish Reversal Candles
Confirmation Candles Must close below the Low of the Candle.
Stoploss always Above the High of the Candle.

All 4 Candles if Open with Gap Down or Gap Up and then complete the Formation, it will give Amazing Results.

ABOUT AUTHOR

About the Author :

The Author SHINDE ATUL S, is a Mechanical Engineer by Education and Analyst by Profession. He is a Technical Analyst and a Certified Investment Adviser with a Working Experience of More than 13 years in Indian Stock Markets as well as Global Markets as an Analyst.

in Global Markets, He works as a Fund Manager and Analyst for Small Clients as well as Big Investors since last 12+ years and is Having Client base from Bangladesh to USA, almost every corner of the World.

In Indian Markets, He Works as a Independent Analyst and Portfolio Manager for Small as well as Big Ticket Clients across India.

The Author Expects the Traders and Investors to Study the Topic in details and Practice according to the trading rules.

If you Like the Presentation, details of the Book, We Expect you to Share it with your fellow traders and Investors and Help them understand the Technical Analysis in a Simplest Way.

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For Reading with Patience :)



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