CHART CODE ACADEMY

Decode The Market Code

HOW TO READ CANDLESTICK CHARTS LIKE A PRO

12 ESSENTIAL PATTERNS EXPLAINED

Candle anatomy, the Doji, Hammer, Engulfing, Morning Star and every major bullish/bearish candle explained — and why reading them in the context of trend matters far more than the shape alone.

A FREE STUDY RESOURCE BY CHART CODE

Chart Code Academy — Stock Market Training Institute

Deepak Kevadia — Founder & Mentor, BSE NISM Certified

Boisar · Palghar · Maharashtra, India

www.chartcode.in | +91-95121 00588 | chartcode.in@gmail.com

About This Guide

A candlestick packs four numbers — the open, high, low and close — into one shape. This guide starts with the anatomy of a single candle, then works through 12 patterns: 6 single-candle shapes, 4 two-candle reversal patterns, and 2 three-candle reversal patterns — each with its own diagram, a plain-English description, and a note on how to actually read it.

It closes with why trend context and volume matter more than the candle shape alone, how pattern meaning shifts with timeframe, the most common reading mistakes, and a five-point checklist to run through before acting on any pattern you spot.

Quick Navigation

1. **What Is a Candlestick and What Does It Show?**
2. **Anatomy of a Candle**
3. **Key Single-Candle Patterns**
4. **Key Two-Candle Patterns**
5. **Key Three-Candle Patterns**
6. **Why Context (Trend Location) Matters More Than the Candle Itself**
7. **Reading Candles Together With Volume**
8. **How Candle Meaning Changes With Timeframe**
9. **Common Candlestick Reading Mistakes**
10. **Your Candlestick Reading Checklist**
11. **Frequently Asked Questions**

What Is a Candlestick and What Does It Show?

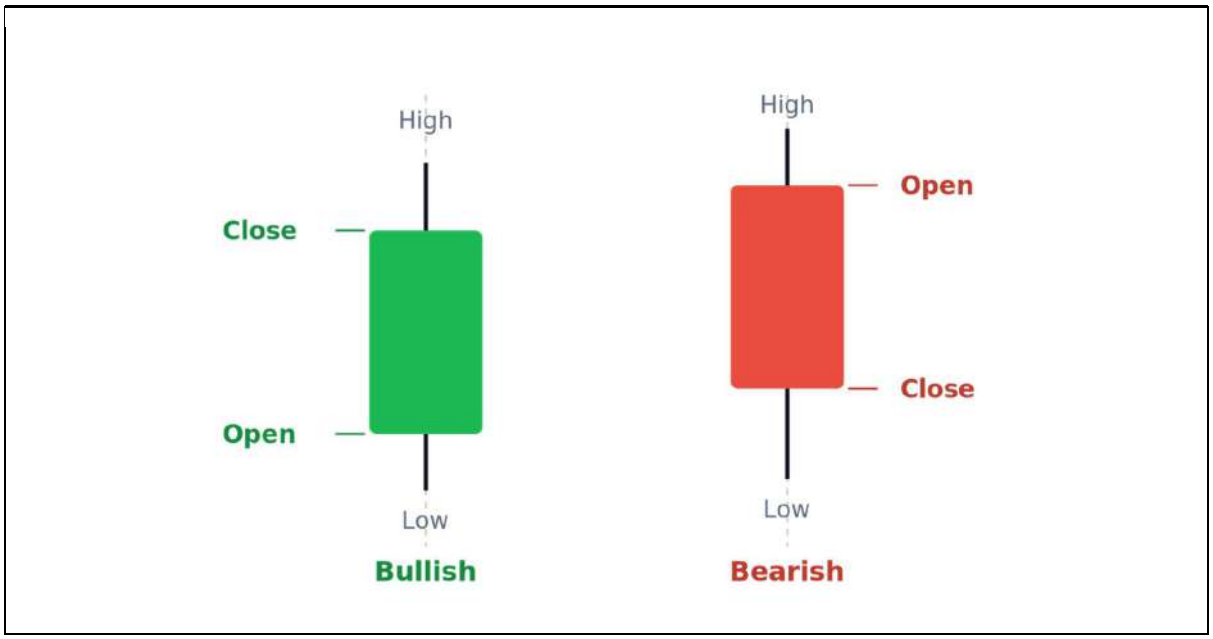
A candlestick is a single visual shape that packs four numbers — the open, high, low and close — into one glance, for a chosen time period. A daily candle summarises an entire day of trading; a 5-minute candle summarises five minutes. Line up hundreds of them side by side and you get a candlestick chart: a complete visual record of the tug-of-war between buyers and sellers over time.

This is exactly why candlesticks replaced simple line charts as the default view for most traders. A line chart connects closing prices and shows you where price ended up; a candlestick shows you the entire journey it took to get there — including how hard buyers pushed, how hard sellers pushed back, and who won that particular round.

> **WORTH REMEMBERING**
>
> Candlestick charting originated with 18th-century Japanese rice traders and reached the West much later — the "candle" name comes directly from the shape: a rectangular "body" with thin lines, or "wicks," sticking out from the top and bottom like a candle and its wick.

Anatomy of a Candle

Every single candlestick, no matter which pattern it belongs to, is built from the same four data points. Once you can read these on sight, every pattern in this guide becomes a matter of recognising a shape, not memorising a fact.



A bullish (green) candle on the left, where the close is higher than the open; a bearish (red) candle on the right, where the close is lower than the open.

The **body** is the thick rectangle between the open and close — its size shows how far price travelled net over the period. The **wicks** (or "shadows") are the thin lines above and below the body, marking the highest and lowest price actually touched, even if it didn't close there. A long wick means price was rejected sharply in that direction before the period ended.

Key Single-Candle Patterns

These six shapes are the building blocks — the vocabulary every other pattern in this guide is built from. Notice that three of these pairs share an identical shape; only the direction of the trend they appear in changes what they mean.



INDECISION

Doji

Open and close are nearly equal, with wicks on both sides — neither buyers nor sellers won this round.



BULLISH REVERSAL

Hammer

Small body, long lower wick — after a downtrend, a sign buyers stepped in hard and pushed price back up.



BEARISH WARNING

Hanging Man

The exact same shape as a Hammer — but after an uptrend, warning that sellers are starting to test control.



BULLISH REVERSAL

Inverted Hammer

Small body, long upper wick — after a downtrend, an early sign buyers attempted a push higher.



BEARISH REVERSAL

Shooting Star

The same shape as an Inverted Hammer — but after an uptrend, a sign buyers were sharply rejected higher up.



STRONG CONVICTION

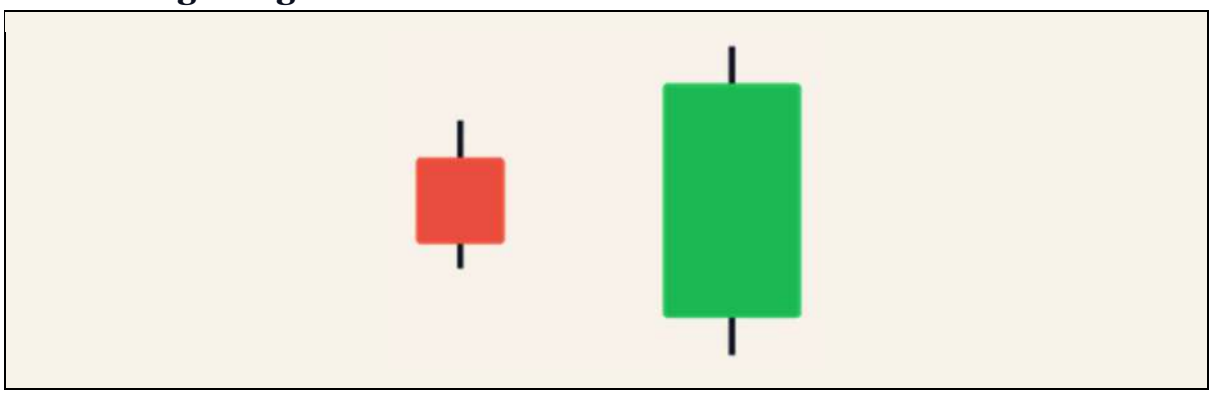
Marubozu

Full body, no wicks at all — one side was in total control for the entire period, open to close.

Key Two-Candle Patterns

These patterns need a second candle to confirm what the first one only hinted at — which is exactly why many traders consider them a notch more reliable than a single candle alone.

Bullish Engulfing BULLISH REVERSAL

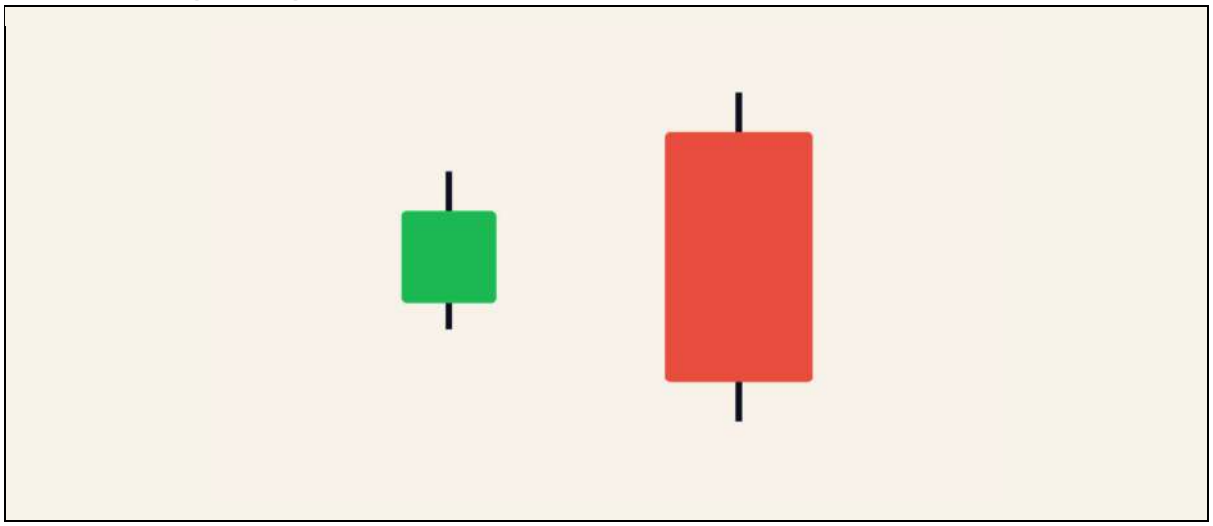


A small red candle is followed immediately by a larger green candle whose body completely covers, or "engulfs," the red body before it. It signals that buyers didn't just stop the decline — they overwhelmed it in a single session.

HOW TO READ IT

The bigger the green body relative to the red one it engulfs, and the more prior downtrend behind it, the more weight this pattern typically carries.

Bearish Engulfing BEARISH REVERSAL

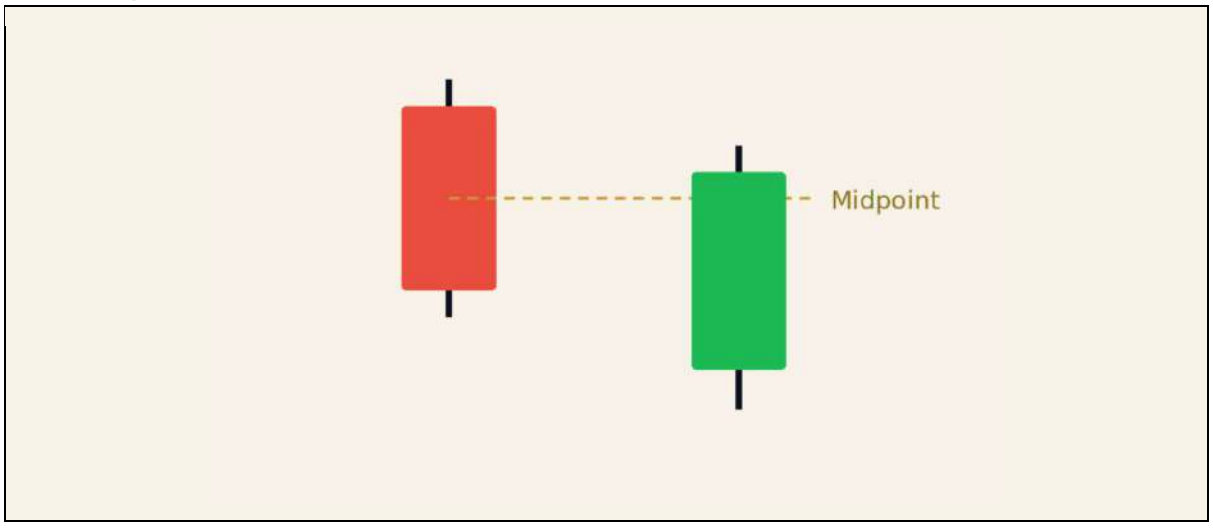


The mirror image: a small green candle is followed by a larger red candle that fully engulfs it — sellers stepping in and overwhelming the prior buying in a single session.

HOW TO READ IT

Just like its bullish counterpart, this carries more weight after an extended uptrend than in the middle of a sideways range.

Piercing Line BULLISH REVERSAL

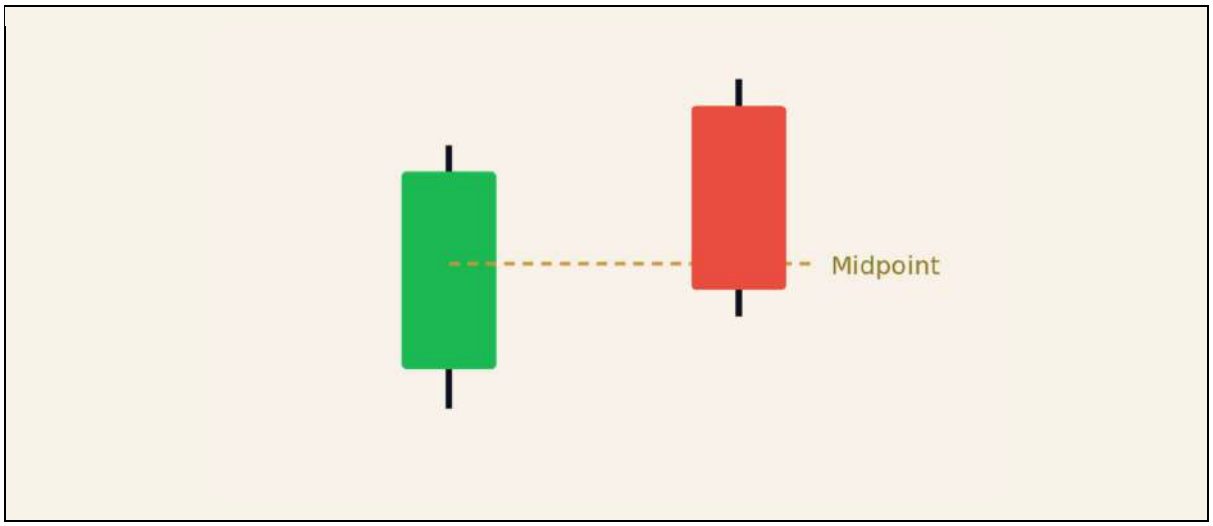


A red candle is followed by a green candle that opens even lower (often on a gap down) but rallies to close above the midpoint of the prior red body — a strong, partial reversal, just short of a full engulfing.

HOW TO READ IT

The deeper the green candle closes into the red body — ideally well past the midpoint — the more convincing this reversal signal becomes.

Dark Cloud Cover BEARISH REVERSAL



The mirror image of Piercing Line: a green candle is followed by a red candle that opens higher (often a gap up) but falls to close below the midpoint of the prior green body — buyers looked strong at the open, then lost control by the close.

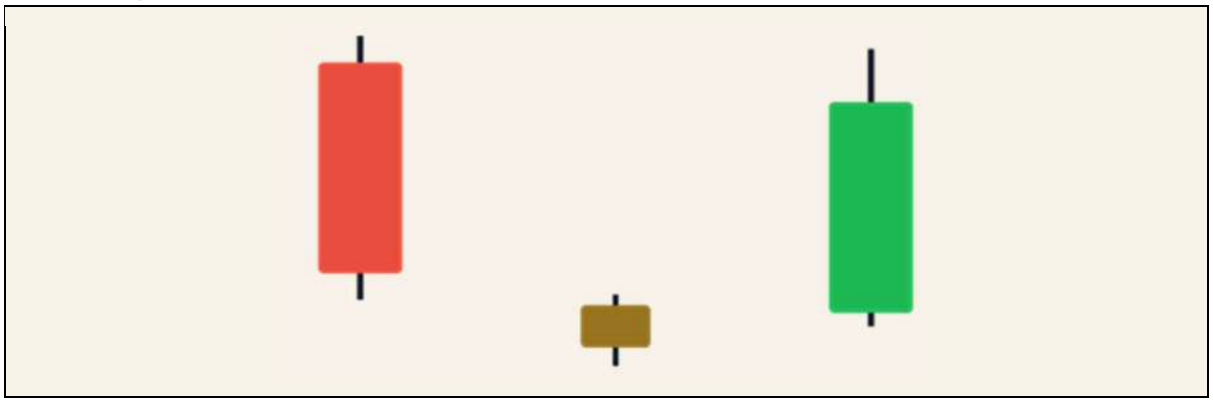
HOW TO READ IT

This pattern near a known resistance zone is generally read as more significant than the same shape forming in open, directionless space.

Key Three-Candle Patterns

These need a full three-candle story to complete — a strong move, a pause, and a strong reversal — which is why they're often treated as some of the more deliberate reversal signals in this guide.

Morning Star BULLISH REVERSAL

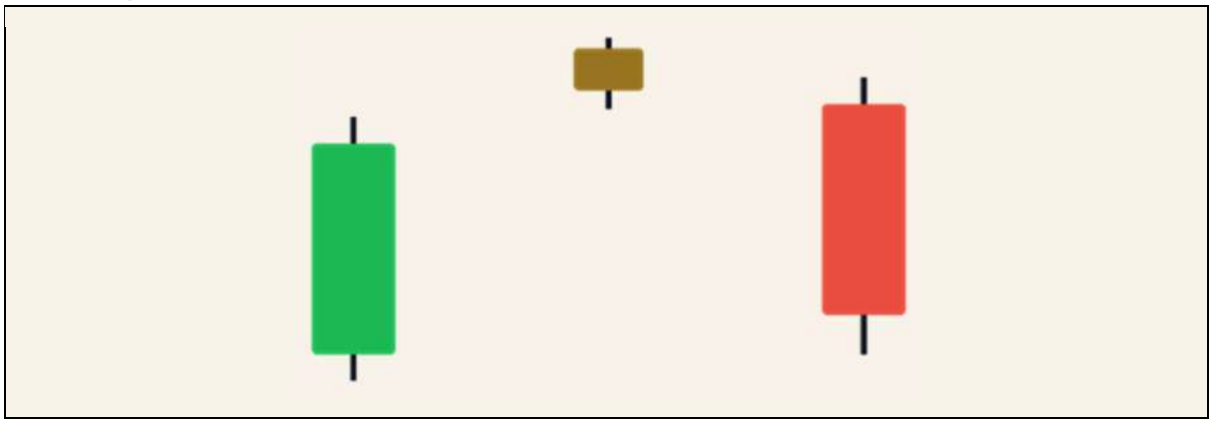


A long red candle continues the downtrend, followed by a small-bodied "star" candle that gaps lower and shows indecision, followed by a long green candle that closes well into the first red candle's body — the "sun rising" after the low point.

HOW TO READ IT

The middle candle's small body is the whole point — it represents the exact moment selling pressure ran out of energy before buyers took over.

Evening Star BEARISH REVERSAL



The mirror image of a Morning Star: a long green candle continues the uptrend, a small "star" candle gaps higher showing indecision, and a long red candle closes well into the first green candle's body — the reversal confirmed at the top.

HOW TO READ IT

Just like the Morning Star, the middle candle is the real signal — it marks the exact point buying enthusiasm ran dry before sellers regained control.

WORTH KNOWING, BRIEFLY

Two related multi-candle patterns worth recognising by name: **Three White Soldiers** — three consecutive long green candles, each closing higher than the last, signalling sustained bullish momentum — and its mirror image, **Three Black Crows**, three consecutive long red candles signalling sustained bearish momentum.

Why Context (Trend Location) Matters More Than the Candle Itself

The Hammer and Hanging Man example earlier in this guide is the clearest possible proof of a rule that applies to every single pattern here: **the exact same candle shape can mean opposite things depending on where it forms.** A pattern-recognition app or a rigid checklist that only looks at candle shape, without asking "what trend was this candle part of?", will misread the market constantly.

Before trusting any candlestick signal, ask one question first: has price been trending clearly in one direction leading into this candle? A reversal pattern forming in the middle of a flat, directionless range carries far less meaning than the identical pattern forming after a long, extended move — because there's no established trend for it to actually "reverse."

Reading Candles Together With Volume

A candlestick pattern tells you what happened to price; volume tells you how much conviction was behind it. The same Bullish Engulfing pattern on unusually high volume represents genuine, broad participation — a real shift in control. The identical shape on quiet, below-average volume could just as easily be a handful of trades randomly forming a recognisable pattern, with far less behind it.

As a simple habit: whenever you spot a pattern in this guide on a chart, glance at the volume bar beneath that candle before acting on it. Rising volume into a reversal pattern adds real confidence; falling or average volume is a reason to wait for more confirmation.

How Candle Meaning Changes With Timeframe

The same pattern, on a different timeframe, is not quite the same signal. Choosing the right timeframe for what you're actually trying to do is as important as reading the pattern correctly.

Timeframe	Typical Use	Pattern Reliability
1-min / 5-min	Intraday scalping, precise entry timing	Lower — high noise, many false signals
15-min / 1-hour	Intraday and short swing entries	Moderate — useful with trend and volume confirmation
Daily	Swing trading, positional entries	Higher — the most widely followed timeframe for these patterns
Weekly	Long-term positional and investing decisions	Highest — fewer, more significant signals

A common, sensible approach: use a higher timeframe like daily or weekly to judge the overall trend and any major reversal pattern, then drop to a lower timeframe like 15-minute only to fine-tune your entry within that larger picture.

Common Candlestick Reading Mistakes

01
Reading the shape, ignoring the trend
Calling every small-body-long-wick candle a "Hammer" without checking whether a downtrend actually came before it.

02
Acting before the confirming candle closes
Jumping in mid-candle on what looks like a forming pattern, before it has actually completed and closed.

03
Ignoring volume entirely
Treating a pattern on dead-quiet volume with the same confidence as one on a clear volume surge.

04
Over-relying on a single candle
Trading a single Doji or Hammer alone, without waiting for the next candle to actually confirm the move.

05
Using the wrong timeframe for the goal
Reading long-term significance into a pattern on a 1-minute chart, where noise dominates real signal.

06
Skipping the stop-loss
Every candlestick pattern fails sometimes — trading one without a predefined invalidation point is a plan without an exit.

📌 Reading candles fluently, in context, with volume and trend layered in, is exactly the hands-on skill we build in our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

Your Candlestick Reading Checklist

Before acting on any candlestick pattern in this guide, run through this five-point check:

✓ **Trend Context**
Did a clear trend actually precede this pattern, giving it something meaningful to reverse or continue?

✓ **Clean Shape**
Does the candle or candle combination genuinely match the textbook shape, without needing to squint?

✓ **Volume Confirmation**
Was volume on the pattern candle(s) average or above, rather than unusually quiet?

✓ **Confirmation Candle**
Has the next candle actually confirmed the move, rather than acting mid-formation?

✓ **Defined Risk**
Do you know exactly where this read would be proven wrong, and have you placed a stop-loss there?

Frequently Asked Questions

Q. What is the most reliable candlestick pattern?

No single pattern is universally the most reliable — reliability depends heavily on context, such as where the pattern forms relative to the trend and whether volume confirms it. Engulfing patterns and the Morning/Evening Star tend to be considered among the stronger reversal signals because they require more than one candle's worth of confirmation, unlike single-candle patterns.

Q. Can I trade based on a single candlestick alone?

It's generally not advisable. A single candle, even a textbook-perfect Hammer or Doji, is a hint worth watching, not a standalone trade trigger. Most experienced traders wait for the next candle to confirm the move, and combine the signal with trend context and volume before acting.

Q. What's the difference between a Hammer and a Hanging Man if they look identical?

The candle shape is genuinely identical — a small body with a long lower wick. What differs entirely is the context: the same shape is called a Hammer and read as bullish when it appears after a downtrend, and a Hanging Man read as bearish when it appears after an uptrend. This is exactly why context matters more than the shape alone.

Q. Do candlestick patterns work on intraday timeframes like 5-minute charts?

The same pattern logic applies on any timeframe, but lower timeframes like 1-minute or 5-minute charts produce far more candles and far more noise, so patterns there are less reliable on their own than the same pattern on a daily or weekly chart. Many traders use lower timeframes for entry timing but weight patterns on higher timeframes more heavily for the overall directional read.

Q. How is a candlestick chart different from a simple line chart?

A line chart typically connects only the closing prices, showing overall direction but hiding what happened during each period. A candlestick shows the open, high, low and close for the same period in one shape, revealing the push and pull between buyers and sellers that a line chart simply cannot show.

Ready to Read Live Charts With Confidence?

Recognising the shape is step one. Reading it with trend, volume and risk management is step two. Chart Code Academy runs structured stock market courses — offline at our Boisar training centre, and live online for students anywhere in India — covering everything from these fundamentals to advanced Technical Analysis, F&O, and Smart Money Concepts.

Get in Touch

CHART CODE ACEFMEY

Website: www.chartcode.in

WhatsApp / Phone: +91-95121 00588

Email: chartcode.in@gmail.com

© 2025 Chart Code Academy. This glossary is free to read, print and share for personal study.