I’m sure you have ever wondered:

“Rayner, do forex candlestick patterns really work?”

Well, the truth is…

…Most forex candlestick patterns don’t work.

And you probably realized this by now that, trading candlestick patterns (in isolation) is a losing game.

So… does it mean candlestick patterns are useless?

Not quite.

Because you can use candlestick to read the price action of the markets, identify strength and weakness, and find low-risk trading setups.

Ready?

Then let’s begin…

The limitations of forex candlestick patterns

There are pros and cons to any trading tool or indicator you’re using — and it’s the same for forex candlestick patterns.

So before you trade it, here are some of the things you need to be aware of…

- You must tweak your candlestick pattern for the forex markets
- Candlestick pattern doesn’t tell you how did price move
- Candlestick pattern doesn’t show you the “big picture”

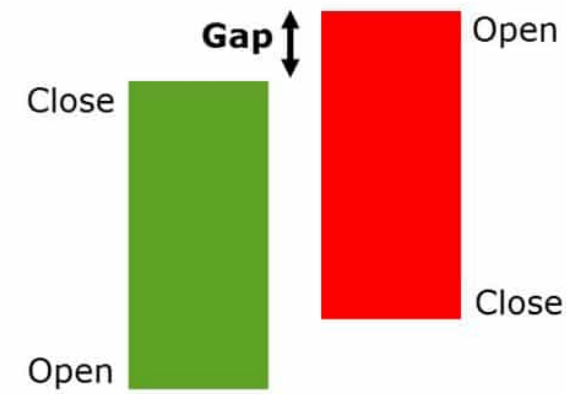
Let me explain…

1. You must tweak your candlestick patterns for the forex markets

A gap occurs when a candle opens a distance away (either higher or lower) from the previous close.

This happens in markets with fixed trading hours like stocks and exchange-traded funds (ETFs).

An example:



This happens when there's an imbalance buying/selling pressure at the pre-market open.

The opening price is the price which has the most number of transactions that took place (between buyers and sellers).

Unlike stocks and ETFs, the forex market is traded 24/5, from Monday to Friday. Thus, you hardly see any gaps on a day to day basis.

This means… if you traded candlestick patterns that require gaps, you'll rarely find it in the forex markets.

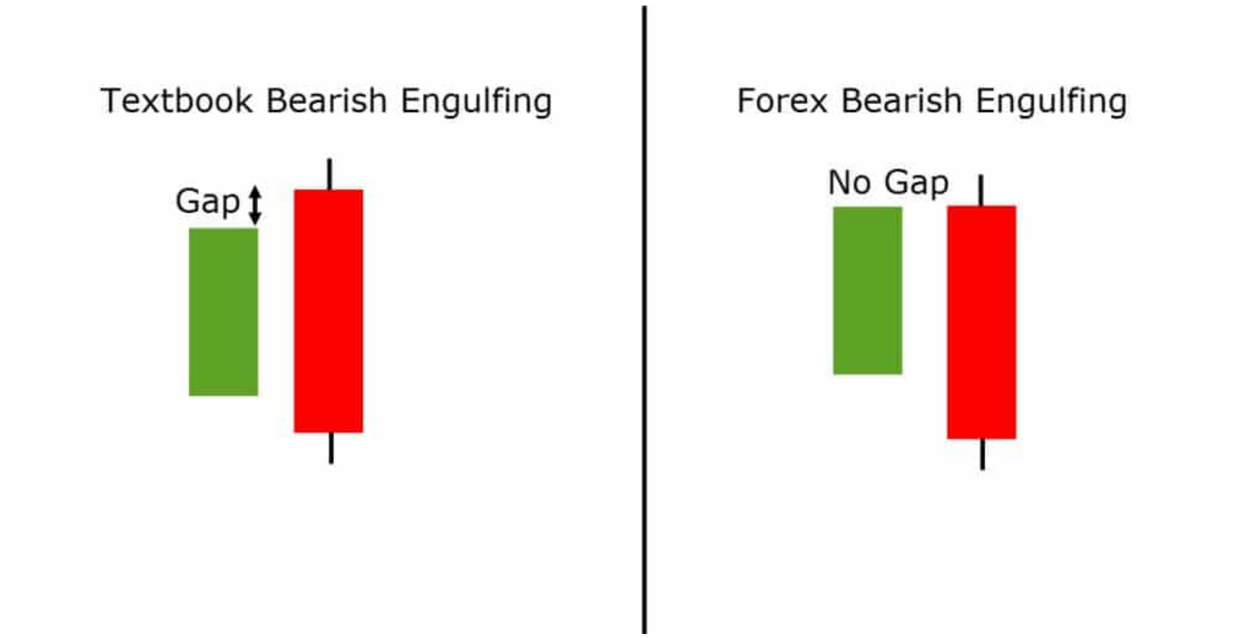
And if you can't find these patterns, how can you trade them?

So… you must "tweak" your definition of candlestick patterns to suit this market.

Here's how:

1. Identify candlestick pattern with a gap (bullish engulfing, evening star, etc.)
2. Remove the gap of these patterns

An example…

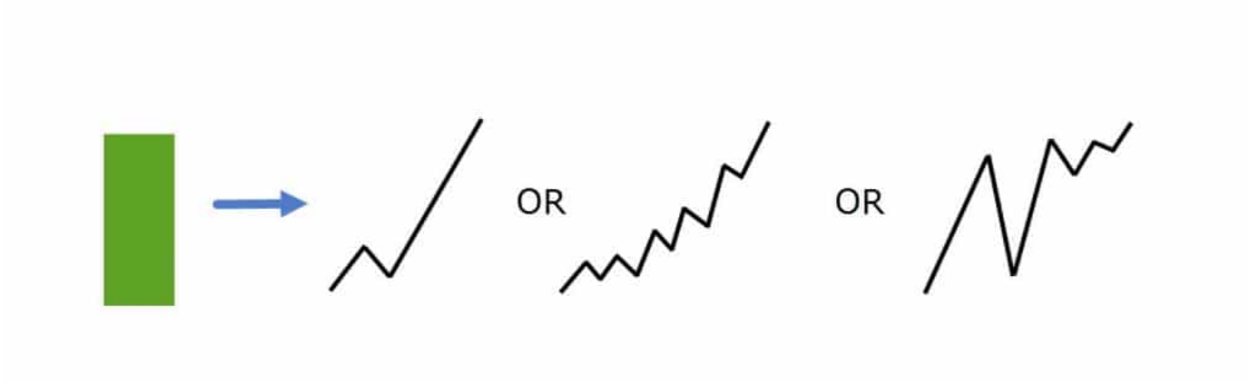


2. It doesn't tell you how price moved

At a quick glance, candlestick pattern can tell you who's in control (for the moment).

But, if you want to know how price moved from the open to the close, then it's impossible to tell just by looking at candlestick pattern.

Here's what I mean:



There are many variations of how price can move from the open to the close.

The only way to see what's going on is to go down to a lower timeframe.

This is important because how price moves from the open to close could signal the strength of the underlying move.

3. Candlestick pattern doesn't tell you the "big picture"

I get this a lot…

Hey, Rayner, there's bearish pinbar on the chart, it looks like the market is heading lower.

Here’s the thing:

The market doesn’t move higher or lower because of candlestick patterns (they are the effect, not the cause).

So, stop trying to predict where the market is going by looking at candlestick patterns because it is meaningless.

Instead look at the “big picture”, otherwise known as the trend. It tells you where the price has been and where it’s likely to go.

How to read forex candlestick patterns like a pro

Let me share with you something…

In my early years of trading, I came across Steve Nison’s book, *Japanese Candlestick Charting Techniques*.

I was amazed by the different patterns and the meaning behind those patterns.

So, what did I do?

I attempted to memorize every candlestick pattern that exists… evening star, morning star, doji, dragonfly doji, harami, engulfing pattern, three white soldiers, and the list goes on…

But… did it improve my trading?

Heck, no.

It only made me more confused because I’m always trying to identify these patterns, instead of focusing on the one thing that really matters — price.

So, don’t make the mistake of assuming that, the more candlestick patterns you memorize, the better your trading will be… because it will not happen.

Now you're probably thinking…

"Okay, Rayner… so does it mean candlestick patterns are useless?"

Not exactly.

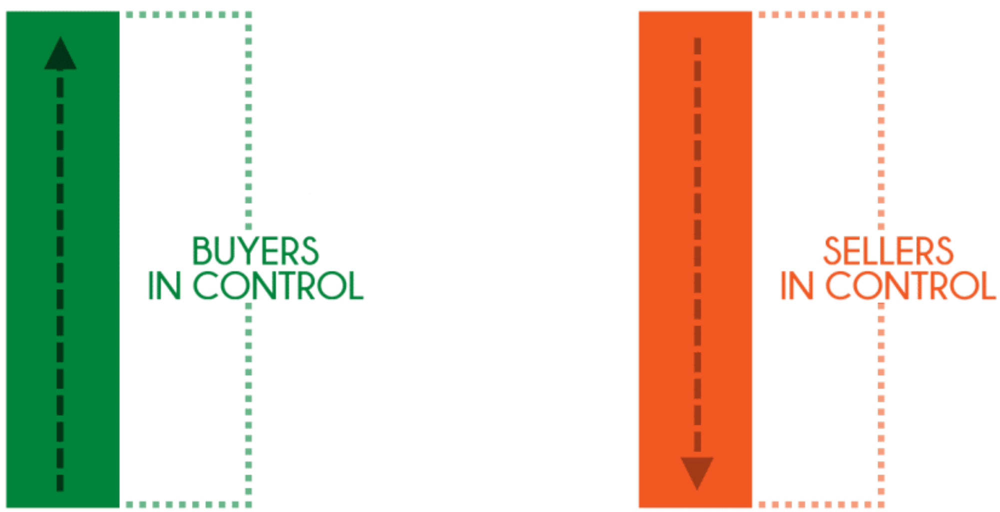
My point is… instead of memorizing the patterns, a better approach would be to understand what the candles are telling you.

Here's what you must know…

1. The colour of the body tells you who's in control
2. The length of the wick represents price rejection
3. The ratio of the body to the wick tells you the "whole story"

Let me explain…

1. The colour of the body tells you who's in control



This is a no-brainer.

When you see a candle closing above the open, it tells you the buyers are in control momentarily and that's why the market closes higher.

And when you see a candle closing below the open, it tells you the sellers are in control momentarily and that's why the market closes lower.

Next…

2. The length of the wick represents price rejection

Here’s the thing:

If you get a long upper shadow, it shows you strong rejection of higher prices.

And if you get a long lower shadow, it shows you strong rejection of lower prices.

But what if the shadow (or wick) is short?

Then it means weak rejection of prices.

Make sense right?

And finally…

3. The ratio of the body to the wick tells you the “whole story”

Now…

You mustn’t just pay attention to the body (or the shadow) because it’s only one-side of the story.

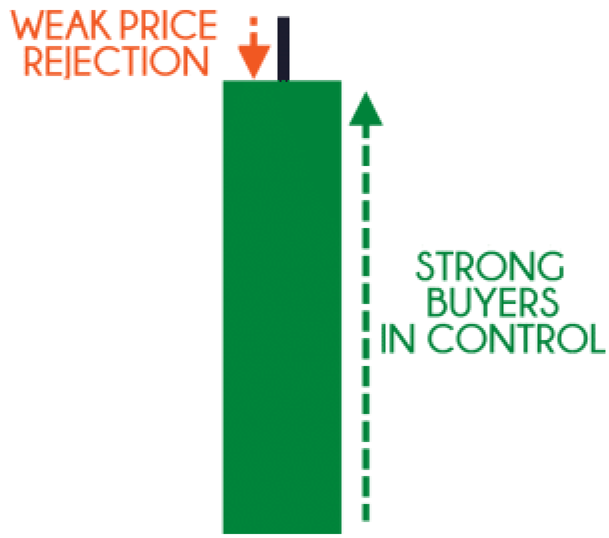
You must combine both to get the complete picture.

It’s like in a court case where a judge must listen to both the plaintiff and the defendant before he gives a verdict.

Here are a couple of examples…

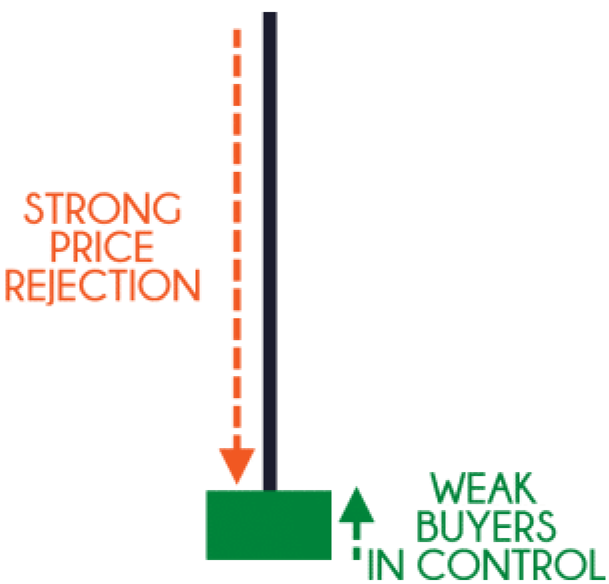
Strong bullish close VS weak price rejection:

This tells you the buyers are in control as there is minimal selling pressure (the short upper wick).



Strong price rejection VS weak bullish close:

The sellers are in control as they have reversed most of the earlier gains (long upper shadow). So, even though it's a bullish close, the overall picture is bearish momentarily.



Does it make sense?

Great!

Now you have what it takes to read any candlestick pattern without memorizing a single one.

Summary

- You must remove gaps in traditional candlestick patterns to suit the forex markets
- Candlestick patterns don't reveal how price moved from the open to close
- Candlestick patterns ignore the "big picture" (otherwise known as the trend)

- The colour of the body tells you who’s in control
- The length of the wick represents price rejection
- The ratio of the body to the wick tells you the “whole story”